

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of

PUBLIC UTILITIES COMMISSION

Instituting a Proceeding to Investigate
Implementing a Decoupling Mechanism for
Hawaiian Electric Company, Inc., Hawaii Electric
Light Company, Inc., and Maui Electric Company,
Limited

DOCKET NO. 2008-0274

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**JOINT FINAL STATEMENT OF POSITION OF
THE HECO COMPANIES AND CONSUMER ADVOCATE**

EXHIBITS "A" - "E"

AND

CERTIFICATE OF SERVICE

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Electric Light Company, Inc., and Maui
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**JOINT FINAL STATEMENT OF POSITION OF
THE HECO COMPANIES AND CONSUMER ADVOCATE**

Hawaiian Electric Company, Inc. ("HECO") and its subsidiaries Maui Electric Company, Limited ("MECO") and Hawaii Electric Light Company, Inc. ("HELCO") (referred to jointly as the "HECO Companies" or the "Companies"¹), and the Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs (the "Consumer Advocate"), herein provide their Joint Final Statement of Position ("SOP").²

The HECO Companies and the Consumer Advocate filed a joint proposal on decoupling as part of their Initial Joint Statement of Position which was filed March 30, 2009. Several documents are attached hereto as part of the Final SOP.

- Exhibit A (Revenue Balancing Account Tariff provision);
- Exhibit B (Revenue Adjustment Mechanism Tariff provision);

¹ "Company" refers to any one of the individual HECO Companies.

² In accordance with the *Order Approving, with Modifications, Stipulated Procedural Order Filed on December 26, 2008*, issued by the Commission on January 21, 2009, the Parties' Final Statements of Position are to be filed on May 11, 2009.

- Exhibit C (summary of decoupling proposal agreement in matrix format) and Attachments 1 to 4 thereto;
- Exhibit D (deadband concept around fixed sales heat rates);
- Exhibit E (HECO Companies status report on certain clean energy initiatives). For further clarification regarding the revisions to Exhibits A and B from the Original Joint Decoupling Proposal and the Final SOP. Exhibits A-1 and B-1 are also attached, representing “redline” versions of changes made to the original documents submitted by the HECO Companies and the Consumer Advocate on March 30, 2009. (Note: Exhibits A and B are “clean” versions of the Final SOP documents which accept the changes highlighted in Exhibits A-1 and B-1.)

The Joint Decoupling Proposal includes a sales decoupling mechanism, which will be implemented through a Revenue Balancing Account and a Revenue Adjustment Mechanism. The purpose of the sales decoupling mechanism is to remove the linkage between utility sales and revenues, in order to encourage energy efficiency. The purpose of the Revenue Adjustment Mechanism is to adjust revenues decoupled from sales to reflect changes in revenue requirements between rate cases, which should help maintain the utility’s financial integrity and ability to invest in the infrastructure necessary to meet Hawaii’s 70% clean energy objective, while maintaining reliable service to customers.

The specific tariff provisions included in the Joint Decoupling Proposal are (1) a Revenue Balancing Account (“RBA”) Provision, as set forth in Exhibit “A”, and (2) a Revenue Adjustment Mechanism (“RAM”) Provision, as set forth in Exhibit “B”. Exhibit “C” is also included to compare the preliminary proposals of the Companies and

the Consumer Advocate, as filed on January 30 in this Docket and proposals of the Companies and the Consumer Advocate as filed as part of the joint initial proposal on decoupling and Statement of Position on March 30, 2009, to the specific provisions set forth in Exhibits A and B that have now been agreed upon by the Companies and Consumer Advocate. (Exhibit C is shown in "redline" format, marked to show the changes made to the comparison that was submitted as part of the March 30, 2009 joint proposal on decoupling and Initial Statement of Position. Exhibits A, B and C are illustrative and would apply to HECO, while several modifications described herein would be required to conform these RBA and RAM tariffs for application to MECO and HELCO.

I. INTRODUCTION

A. HAWAII CLEAN ENERGY INITIATIVE ("HCEI") AGREEMENT

The Joint Decoupling Proposal is intended to be consistent with the decoupling mechanism agreed to in the landmark *Energy Agreement among the State of Hawaii, Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs, and the Hawaiian Electric Companies*.

On October 20, 2008, the Governor of the State of Hawaii, the State of Hawaii Department of Business, Economic Development and Tourism, and the Consumer Advocate and the HECO Companies entered into this comprehensive agreement, generally identified as the Hawaii Clean Energy Initiative ("HCEI") Agreement,³

³ *Energy Agreement among the State of Hawaii, Division of Consumer Advocacy of the Department of Commerce & Consumer Affairs, and Hawaiian Electric Companies*, generally identified as the "HCEI Agreement".

designed to move the State away from imported fossil fuels and toward renewable energy.

The HCEI Agreement acknowledges that the signatories of the agreement must “move more decisively and irreversibly away from imported fossil fuel for electricity and transportation and towards indigenously produced renewable energy and an ethic of energy efficiency.” While memorializing the commitment by the signatories to support the acceleration to a much more renewable, distributed and intermittent-powered system with a smart grid,⁴ the signatories also recognized the “need to assure that Hawaii preserves a stable electric grid to minimize disruption to service quality and reliability. In addition, we recognize the need for a financially sound electric utility. Both are vital components for our achievement of an independent renewable energy future.”⁵

In Section 28, “Decoupling from Sales”, of the HCEI Agreement, the signatories agreed to a decoupling mechanism that separates (“decouples”) the HECO Companies’ revenues from energy sales. Section 28 states:

“...The parties agree in principle that it is appropriate to adopt a decoupling mechanism that closely tracks the mechanisms in place for several California electric utilities, as follows:

⁴ The Energy Agreement discusses and documents a number of new initiatives and renewable energy projects that will assist in achieving the State’s goal of promoting and increasing the use and development of renewable energy resources. These programs and projects include but are not limited to: a competitive request for proposal for 100 MW of non-firm renewable energy on Oahu, small, medium and large wind projects on all islands which could total nearly 500 MW, waste-to-energy projects in the range of 30 MW, ocean thermal projects (potentially up to 100 MW), the increased use of biofuels where appropriate, proposed solar, biomass, wave and geothermal projects in the range of 40 MW and development of both a Photovoltaic (“PV”) Host program and a feed-in tariff (“FIT”) program.

⁵ The HCEI Agreement includes commitments to encourage the Commission to modify the traditional ratemaking model by implementing (i) revenue decoupling, and (ii) a formula RAM allowing rates to increase between general rate cases, and (iii) surcharge rate recovery of selected Clean Energy Infrastructure (“CEI”) project costs. Renewable Energy Infrastructure Program (“REIP”) Surcharge proposals have been considered by the Commission in Docket Nos. 2007-0008 and 2007-0416 and in the pending Advanced Metering Infrastructure (“AMI”) Docket No. 2008-0303.

1. The revenues of the utility will be fully decoupled from sales/revenues beginning with the interim decision in the 2009 Hawaiian Electric Company Rate Case (most likely in the summer of 2009).

The utility will use a revenue adjustment mechanism based on cost tracking indices such as those used by the California regulators for their larger utilities or its equivalent and not based on customer count. Such a decoupling mechanism would, on an ongoing basis, provide revenue adjustments for the differences between the amount determined in the last rate case and:

- (a) The current cost of operating the utility that is deemed reasonable and approved by the PUC;
- (b) Return on and return of ongoing capital investment (excluding those projects included in the Clean Energy Infrastructure Surcharge); and
- (c) Any changes in State or federal tax rates.

Adjustments shall occur on a quarterly basis, semi-annual, or annual based on the availability of the indices utilized. The adjustments will continue until such time that they are incorporated in the utility's base rates.

2. The parties agree that the decoupling mechanism that will be implemented will be subject to review and approval by the PUC.
3. The utility will continue to use tracking mechanisms for Commission-approved pension and other post-retirement benefits to ensure that the expenses are evened out for the ratepayer and are not subject to sudden and dramatic swing.
4. The Commission may review the decoupling mechanism at any time if it determines that the mechanism is not operating in the interests of the ratepayers.
5. The utility or the Consumer Advocate may also file a request to review the impact of the decoupling mechanism.
6. The Commission may unilaterally discontinue the decoupling mechanism if it finds that the public interest requires such action.
7. In order to implement the decoupling mechanism, the parties agree that HELCO and MECO will file for a 2009 test year rate case."

The Commission's *Order Initiating Investigation*, issued October 24, 2008, stated that the joint proposal of the HECO Companies and the Consumer Advocate should

address all of the factors identified in the Energy Agreement (page 9, Ordering Paragraph 2).⁶

B. JANUARY 30, 2009 PRELIMINARY PROPOSALS

The Consumer Advocate's *HECO/MECO/HELCO Rate Adjustment Mechanism "RAM" Conceptual Framework Proposal*, filed January 30, 2009, was developed in consultation with its consultant, Utilitech, Inc.⁷ The Consumer Advocate's January 30th filing included a summary description of its proposal, which the Consumer Advocate supplemented in written responses to informal information requests, including further illustrations of how the mechanism would work.

The Consumer Advocate noted that its RAM outline was a "discussion draft and does not represent the final position of the Consumer Advocate, which is still under formation through ongoing discussions with the parties to this proceeding. It is offered to stimulate dialogue around the many complex issues raised by substitution of formula ratemaking in place of more traditional processes."

The HECO Companies' *Revenue Decoupling Proposal*, filed January 30, 2009, with corrections filed February 3, 2009, was developed in consultation with its consultant, Pacific Economics Group, LLC ("PEG"). The HECO Companies' preliminary proposal and the accompanying PEG report, *Revenue Decoupling for*

⁶ In the Order issued on December 4, 2008, in the instant proceeding, the Commission granted intervention to Life of the Land, Hawaii Renewable Energy Alliance, Haiku Design and Analysis, Hawaii Holdings, LLC dba First Wind Hawaii ("First Wind"), the State of Hawaii, Department of Business, Economic Development, and Tourism, Hawaii Solar Energy Association, and Blue Planet Foundation. On February 13, 2009, Life of the Land filed a Notice of Withdrawal which was approved in the Commission's Order Approving Notice of Withdrawal, issued on February 24, 2009. By Order Granting Hawaii Holdings, LLC, doing business as First Wind Hawaii's Motion for Approval to Amend its Status as an Intervenor/Party to a Participant filed April 29, 2009, First Wind's status was amended from an intervenor/party to a participant.

⁷ In its preliminary proposal, the Consumer Advocate referred to the combination of decoupling with an RBA and periodic formula-driven changes to authorized revenues as a "Rate Adjustment Mechanism" or "RAM".

Hawaiian Electric Companies, discussed various forms of decoupling, including the California mechanisms referred to in the HCEI Agreement.

The HECO Companies also noted that their Decoupling Mechanism proposal was preliminary, and was intended to facilitate discussion, and that they might refine their Decoupling Mechanism proposal in their Statement of Position to be submitted March 30, 2009, in order to take into account the information shared by the Parties at a workshop held on February 27, 2009, and through responses to information requests ("IRs").

Prior to submitting their preliminary proposals, the representatives of the HECO Companies and PEG (by phone) met with the representatives of the Consumer Advocate and its consultant, Utilitech, over two days on December 16 and 17, 2008 to discuss decoupling concepts and implementation mechanisms. The HECO Companies provided a preliminary draft of their proposal to the Consumer Advocate on January 20, 2009, provided earlier drafts of the PEG report on November 25, 2008 and December 2, 2008, and responded to informal requests for information to facilitate the discussion over the period from December 1, 2008 through January 8, 2009. The HECO Companies noted that the extensive participation of the Consumer Advocate, and comments and questions provided by Utilitech, helped the HECO Companies considerably in formulating their preliminary proposal.

Thus, while the HECO Companies and the Consumer Advocate separately submitted preliminary proposals to facilitate the Commission's review of decoupling in this docket, the Joint Parties hoped to continue their discussions, while considering the proposals and perspectives brought to this proceeding by the other Parties as well.

C. FURTHER PROCEEDINGS

On January 21, 2009, the Commission issued a scoping paper, titled *"Decoupling" Utility Profits from Sales: Design Issues and Options for the Hawaii Public Utilities Commission* ("Decoupling Scoping Paper"), prepared by the National Regulatory Research Institute ("NRRI"). Comments were submitted by the parties on or about February 10, 2009, and responses to the questions in Appendix 2 of the Decoupling Scoping Paper were submitted on February 20, 2009.

A Technical Workshop attended by all of the parties was held on February 27, 2009. Representatives from PEG, Utilitech and NRRI were all able to participate. Responses to Commission information requests prepared by NRRI following the workshop were filed on March 30, 2009.

As a result of (1) their informal exchange of information focused on their preliminary proposals, (2) the exchange of information and concepts at the February 2009 Technical Workshop, in response to the Scoping Paper and the questions posed therein, and in response to the information requests submitted on behalf of the Commission by NRRI, and (3) extensive discussions focused on resolving their remaining differences, the HECO Companies and the Consumer Advocate developed a joint decoupling proposal that was submitted as part of their Joint Initial SOP filed on March 30, 2009. Other parties also submitted initial statements of position on March 30, 2009.

On April 15, 2009, the HECO Companies responded to IRs on the Joint Proposal and Statement of Position. On April 20, 2009, the parties held additional technical workshop/settlement discussion sessions. On April 30, 2009, the Commission issued

additional information requests prepared by NRRI that are due 14 days from the date of the letter.

D. JOINT DECOUPLING PROPOSAL

The Joint Decoupling Proposal that is submitted as part of this Joint Final SOP is a result of the efforts described above that led to the joint decoupling proposal submitted as part of the Joint Initial SOP of the HECO Companies and Consumer Advocate. The Joint Decoupling Proposal includes a sales decoupling mechanism, which will be implemented through a RBA and a RAM.⁸ The purpose of the sales decoupling mechanism is to remove the linkage between utility sales and revenues, in order to encourage energy efficiency.⁹ The purpose of the Revenue Adjustment Mechanism is to adjust revenues decoupled from sales to reflect changes in revenue requirements between rate cases, which should help maintain the utility's financial integrity and ability to invest in the infrastructure necessary to meet Hawaii's 70% clean energy objective, while maintaining reliable service to customers.

The conceptual, preliminary proposals developed by the HECO Companies and the Consumer Advocate were similar in approach, but there were a number of differences in the implementation that were resolved to arrive at the Joint Decoupling Proposal. Exhibit "C" outlines, in matrix form, each of the significant differences and the manner in which each difference was resolved.

The HECO Companies and the Consumer Advocate are aware that decoupling mechanisms are new in Hawaii, although they have been implemented in other

⁸ Item number 1 in Section 28 of the HCEI Agreement refers to the two components of revenue decoupling: a sales decoupling mechanism and a revenue adjustment mechanism.

⁹ The Decoupling Scoping Paper states on page 9 that: "If the regulator's objective is to encourage the use of renewable resources, decoupling is necessary to eliminate the disincentive of sales losses associated with renewable resources."

jurisdictions. Thus, the HCEI Agreement includes a number of proposed review provisions that have been included in the Joint Decoupling Proposal, which provide the Commission, the Consumer Advocate, and the HECO Companies the ability to review the performance of revenue decoupling and take steps to correct, suspend, or terminate the mechanism. Further, the Consumer Advocate has proposed, and the HECO Companies have accepted, a number of additional safeguards for ratepayers. For example, the provisions would extend to each of the HECO Companies' next round of rate cases, at which time, upon Commission review and evaluation, the provisions may be extended, terminated or modified based upon evidence presented in those rate case proceedings.

II. JOINT DECOUPLING PROPOSAL

A. JOINT DECOUPLING PROPOSAL

The revenue decoupling proposal contains two mechanisms consistent with the HCEI Agreement:

- (1) A RBA Provision to implement sales decoupling, which breaks the link between sales and electric revenue; and
- (2) A RAM Provision.

Under sales decoupling, electric revenue is not a function of sales. Instead, a Commission-approved base revenue requirement is set through a rate proceeding and the utility is allowed to adjust its rates between rate cases to recover that revenue requirement. A target revenue level would equal the base revenue requirement less revenue for fuel and purchased power expenses that are recovered either in base rates or

in a purchased power adjustment clause and all revenue being separately tracked or recovered through any other surcharge or tracking mechanism.

Sales decoupling requires that there be a process to capture the difference between the target revenue and recorded adjusted revenues collected¹⁰, and to adjust rate levels (through an adjustment clause) to make up the difference. Under the Joint Decoupling Proposal, a RBA would be established to facilitate that process. Details of the RBA are set forth in Exhibit "A" to this Final SOP.

Under traditional ratemaking, sales increases between rate cases provided the utility an opportunity to recover the associated cost increases. However, setting target revenues that do not change between rate cases under sales decoupling provides no compensation to the utility for any inflationary pressures upon utility costs or new infrastructure investments. Therefore, there is a need to allow increases in target revenue levels each year. This is accomplished through a revenue adjustment mechanism, or RAM. Details of the RAM are set forth in Exhibit "B" to this Final SOP.

B. SALES DECOUPLING

Under the Joint Decoupling Proposal, the initial sales decoupling mechanism would begin with the establishment of Authorized Base Revenues,¹¹ which would be equal to the revenue requirements approved by the Commission in its interim decision and orders for HECO's 2009 test year general rate case proceeding and MECO's and HELCO's 2009 or 2010 test year general rate case proceedings. The revenue

¹⁰ Recorded revenues collected would be adjusted in the same way as described for target revenues except that the revenue excluded would also include revenue from the Energy Cost Adjustment Clause ("ECAC"). The ECAC automatically increases or decreases charges to reflect changes in the Companies' energy costs of fuel and purchased energy above or below the levels included in base rates.

¹¹ "Authorized Base Revenues" is a term defined in greater detail within the RAM Provision tariff (Exhibit B).

requirements will be based on traditional cost-of-service ratemaking principles for each of the individual HECO Companies. RBAs would be established to record the monthly differences between target revenues based on the approved interim revenue requirement for electric sales revenues¹² in their 2009 or 2010 test year rate cases and the adjusted recorded electric sales revenues. The RBAs, which would also be used to implement the RAM, are described below and in Exhibits "A" and "B".

C. REVENUE ADJUSTMENT MECHANISM ("RAM")

The RAM Provision is designed to re-determine annual utility authorized base revenue levels, thus recognizing estimated changes in the utility's cost to provide service. If it is determined that annual utility Authorized Base Revenues should be decreased or increased, then the RAM Revenue Adjustment level applicable within the RBA Provision will be adjusted as set forth in the RAM Provision. The RAM Revenue Adjustments implemented under the RAM Provision will escalate and update the Company's approved base revenue requirement, reduced by any earnings sharing credits or major capital projects credits to customers.

The "Authorized Base Revenue" will be the annual amount of revenues required for the utility to recover its estimated operations and maintenance ("O&M"), depreciation, amortization and tax expenses for the RAM Period, as well as the return on investment on projected rate base for the RAM Period (referred to as the "Rate Base" in the RAM Provision), using the ratemaking conventions and calculations reflected within the most recent rate case Decision and Order issued by the Commission, quantified in the manner prescribed in the RAM Provision. See Attachments 1 through 4 (illustrative

¹² The allocation of the revenue requirements to the remaining months in the year will be specified in the Companies' tariffs. The allocation will be based on the mWh sales forecast used as the basis for the Companies' test year 2009 or 2010 rate cases.

example of RAM calculations concerning O&M and rate base) to Exhibit C. The RAM Period is defined as the calendar year containing the Annual Evaluation Date (i.e., the date the utility makes its annual filing under the RAM mechanism). Since estimated O&M, depreciation, amortization and tax expenses, as well as the return on investment on projected rate base continues to increase even as the Commission considers on-going rate proceedings, an annual filing under the RAM Provision is expected to be filed during the test year.

The components of the Company's revenue requirement that are subject to update and escalation through the RAM Provision include the revenue requirements associated with (1) changes in designated O&M expenses (referred to as "Base Expenses" in the RAM Provision), (2) the return on incremental investment in designated rate base components, (3) incremental depreciation and amortization expenses, and (4) changes in costs due to significant changes in tax laws or tax regulations (Exogenous Tax Changes in the RAM Provision).

O&M Expenses

"Base Expenses" will be segregated between labor and non-labor amounts, with the labor component quantified for the RAM Period by application of the Labor Cost Escalation Rate that is reduced by the Labor Productivity Offset and the Non-labor components quantified for the RAM Period by application of the Non-labor Escalation Rate. Tracked O&M expenses for fuel, purchased power, pension/other post employment benefits ("OPEBs"), integrated resource planning ("IRP")/demand-side management ("DSM") or other rate adjustment provisions, will be carried forward into the RAM

Period at the fixed amounts established in the most recent rate case proceeding, because any changes in these costs is accounted for separately in other cost tracking mechanisms.

Base Expenses include the labor and non-labor operations and maintenance expense amounts approved by the Commission in the most recently completed rate case where the test year was the Evaluation Period¹³, or alternatively as authorized by the Commission in its Tariff Order for the immediately preceding year RAM Period if the Evaluation Period was not a test year. Base Expenses do not include any fuel, purchased power, IRP/DSM, pension, OPEBs, or Clean Energy/Renewable Energy Infrastructure costs that are subject to recovery through separate rate tracking mechanisms.

The labor component will be quantified for the RAM Period by application of the Labor Cost Escalation Rate, reduced to account for the Productivity Offset to labor expenses. The Labor Cost Escalation Rate will be the applicable annual percentage general wage rate increase provided for in currently effective union labor agreements for use in escalating wage and salary Base Expenses for both union and non-union employees to determine revenue requirements for the RAM Period. In the event no union labor agreement exists for a RAM Period, the most recently effective annual percentage general wage rate increase will apply.

The annual Productivity Offset is fixed at 0.76% and will be subtracted from the Labor Cost Escalation Rate applicable to Base Expenses to determine revenue requirements for the RAM Period.

The Non-labor component will be quantified for the RAM Period by application of the Non-labor Escalation Rate. The Non-labor Cost Escalation Rate will be the

¹³ The Evaluation Period is the historical twelve month period ending December 31, of each calendar year preceding the Annual Evaluation Date.

consensus estimated annual change in the Gross Domestic Product Price Index (“GDPPI”) to escalate non-labor Base Expenses to determine Authorized Base Revenues for the RAM Period. The GDPPI escalation rate will be the consensus projection published by the Blue Chip Economic Indicators (Aspen Publishing) issued in February of the year of the RAM filing. No productivity offset is applied to the non-labor escalation rate. The GDDPI is a measure of national output price inflation that already includes the impact of productivity and the application of a further productivity offset would double count the impact of productivity.

Rate Base

The Rate Base (for the RAM Period) will be the average net investment estimated for the RAM Period, including each of the elements of rate base reflected within the most recent rate case Decision and Order issued by the Commission, quantified in the manner prescribed in §2(f) of the RAM Provision. The Authorized Base Revenue associated with Rate Base will be determined by multiplying the applicable Return on Investment percentage rate times Rate Base. The Authorized Base Revenue associated with return on investment will include related income taxes on the equity components of such return. The quantification of Rate Base is specified in greater detail in §2(f) of the RAM Provision. In effect, the average rate base for the RAM Period (i.e., the Rate Base) will be the rate base for the rate case test year, with adjustments for changes in only four components of rate base, including (1) average plant-in-service, (2) depreciation reserve (i.e., “Accumulated Depreciation”), (3) accumulated contributions in aid of construction (“CIAC”) and (4) accumulated deferred income taxes (“ADIT”). All other components

of the rate base will remain the same as those in the preceding rate case test year rate base.

The average plant-in-service amount will be equal to the average of (1) the actual plant-in-service balance as of the end of the year prior to the RAM Period (termed the "Evaluation Year"), and (2) the same year-end balance plus estimated plant additions for the RAM Period. Estimated plant additions for the RAM Period will be set at Baseline Capital Project plant additions plus Major Capital Projects plant additions estimated to be in service by September 30th of the RAM Period (based on the "approved" cost estimates for such projects).

Baseline Capital Projects include the total amounts of capital investment completed and closed to Plant in Service, excluding amounts related to Major Capital Projects. Baseline Capital Project plant additions will be calculated based on the simple average of Baseline Capital Projects plant additions recorded in the immediately preceding five calendar years.

Major Capital Projects include capital investment projects that require application and Commission approval to commit funds pursuant to Decision and Order No. 21002 (Docket No. 03-0257) ("D&O 21002") "For Exemption From and Modification of General Order No. 7, Paragraph 2.3 (g), Relating to Capital Improvements."¹⁴ However, if specific Major Capital Projects are to be included in the Clean Energy Infrastructure Surcharge, they will not be included within the RAM provision so as to avoid any double recoveries.

¹⁴ D&O 21002 revised Paragraph 2.3 (g) of General Order No. 7 to read "Proposed capital expenditures for any single project related to plant replacement, expansion or modernization in excess of \$2,500,000 excluding customer contributions, or 10 per cent of the total plant in service, whichever is less, shall be submitted to the Commission for review at least 60 days prior to the commencement of construction or commitment for expenditure, whichever is earlier."

Accumulated Depreciation at December 31 of the RAM Period is quantified by increasing the recorded balances at December 31 of the Evaluation Period by the amount of the RAM Period depreciation and amortization expense amount.

CIAC is quantified by adding to the recorded balance at December 31 of the Evaluation Period an estimate of the net change for the RAM Period. The net change will be based on a simple average of cash and in-kind CIAC for the immediately preceding five calendar years for programs plus specific engineering estimates of any contributions for the Major Capital Projects that are added to rate base during the RAM Period.

Accumulated Deferred Income Taxes is quantified by adding to the recorded balances at December 31 of the Evaluation Period the estimated tax effect of the depreciation timing difference (i.e., difference between book depreciation and tax depreciation) on the Baseline Capital Projects and Major Capital Projects added to rate base during the RAM Period.

Depreciation and Amortization Expenses

Depreciation and CIAC amortization expenses will be quantified for the RAM Period by application of Commission-approved accrual rates to the actual recorded Plant in Service (or other applicable) balances at the end of the Evaluation Period.

Exogenous Tax Changes

Exogenous Tax Changes include changes in tax laws or tax regulations that are estimated to impact Authorized Base Revenues by \$2,000,000 or more for HECO, or \$500,000 or more for HELCO or MECO.

Major Capital Projects Revenue Credits

Major Capital Projects Revenue Credits are amounts that will be returned to customers as credits through the RBA for the preceding year's authorized base revenue amounts (including interest at the rate described in the RBA Provision) associated with specific major projects that were not placed into service within the first nine months of the preceding RAM period.

Earnings Sharing

Earnings Sharing Revenue Credits will be the amounts to be returned to customers as credits through the RBA Provision, so as to implement the earnings sharing provisions percentages and procedures described in the RAM Provision.

As part of its annual filing, the Companies will prepare a calculation comparing the achieved return on average common equity for the Evaluation Period to the following earnings sharing grid, so as to determine any Earnings Sharing Revenue Credit that should be recorded against the RBA to effect the prescribed sharing of utility earnings above authorized levels:

ROE at or below the Authorized ROE	Retained entirely by shareholders – no customer credits
First 100 basis points (one percent) over Authorized ROE	25% share credit to customers
Next 200 basis points (two percent) over Authorized ROE	50% share credit to customers
ROE exceeding 300 basis points (three percent) over Authorized ROE	90% share credit to customers

The Authorized Return on Equity for this purpose will be the overall weighted percentage rate of return on equity capital approved by the Commission in the most recently

completed rate case. The proposed earnings sharing grid is asymmetrical, with no surcharges to customers if achieved ROE is below the authorized level.

Earnings (as measured by ROE) achieved by each of the HECO Companies are to be calculated on a regulatory basis of accounting for each calendar year that includes any RAM Revenue Adjustments. Ratepayers would then be credited with the revenue equivalent of ROE levels actually achieved within the sharing layers (after removal of any prior period RBA adjustments and routinely disallowed costs).

Ratemaking adjustments include expenses removed in the Company's initial filing as well as all ordered expense disallowances. Rate base elements and methodologies are defined by the most recent rate case, but shall be updated to reflect current average investment balances for the year. Capital ratios and costs rates will be retained as authorized in either the interim or final decision issued most recently in the Company's most recent rate case, and synchronized interest will be updated using methods employed in that last rate case. The resulting achieved return on equity at authorized revenue levels shall serve as the basis for any earnings credits to the RBA, after factoring up post-tax income amounts to pretax revenue equivalent values.

Detailed supporting workpapers and electronic files will be submitted coincident with all filings made by the utilities. Any recorded revenues arising from out of period adjustments or prior year earnings credits shall be identified and removed in preparing earnings sharing calculations. The earnings monitoring and sharing report shall be accompanied by detailed supporting workpapers, showing the quantification of achieved earnings and each ratemaking adjustment embedded therein.

D. OTHER AGREEMENTS

In response to matters raised by the other parties, the HECO Companies and Consumer Advocate have agreed to certain additional features to be included as part of the Joint Decoupling Proposal. These items are discussed in detail in Exhibits D (deadband concept around fixed sales heat rates) and E (HECO Companies provide status report on clean energy initiatives).¹⁵

E. THE DECOUPLING AND RAM PROCESS

Revenue Balancing Accounts

The purpose of the RBA is to record (1) the difference between the Company's target revenue and recorded adjusted revenue, and (2) monthly interest applied to the simple average of the beginning and ending month balances in the RBA. In addition, the recovery provision of the RBA Provision provides for collection or return of the calendar year-end balance in the RBA and recovery of the RAM Revenue Adjustment provided in the RAM Provision over the subsequent June 1st through May 31st period.

For the purpose of the RBA, the target revenue is the most recent Authorized Base Revenue approved by the Commission in an interim or final decision and order in a rate case, or the re-determined Authorized Base Revenue level calculated under the RAM Provision since the most recent rate case, adjusted to remove amounts for applicable revenue taxes and less any refunds due to the Earnings Share Mechanism. The target revenue will exclude revenue for fuel and purchased power expenses that are recovered

¹⁵ The concepts are also discussed in Exhibit C. The parties proposal to address the recommendation concerning performance metrics, is also included in the RAM Tariff provision (Exhibits B and B-1, "Purpose" section of the RAM tariff provision).

either in base rates or in a purchased power adjustment clause and all revenue being separately tracked or recovered through any other surcharge or rate tracking mechanism.

The target revenue will be revised to correct for any errors in the calculation of the RAM Adjustment for any previous period to the extent that such errors are identified 15 days prior to the implementation date specified in the RAM Provision.

On or before March 31st,¹⁶ the Company will file with the Commission a statement of the previous calendar year-end balance in each RBA sub-account and the Authorized Base Revenue level for the current calendar year, along with supporting calculations. Both an amortization of the previous calendar year-end balance in the RBA sub-accounts and the RAM Revenue Adjustment will be recovered through separate per-kWh RBA rate adjustments, one for residential customers and one for commercial and industrial customers, respectively, over the 12 months from June 1 of the current calendar year to May 31 of the succeeding calendar year. The residential RBA adjustment will recover the previous calendar year-end balance in the residential RBA sub-account plus a share of the RAM Revenue Adjustment in the same proportion as the residential rate class' share of the total revenue requirement approved in the Company's most recent rate case. The commercial/industrial RBA adjustment will recover the previous calendar year-end balance in the commercial/industrial RBA plus the balance of the RAM Revenue Adjustment that is not assigned to the residential RBA adjustment.

Under the Joint Decoupling Proposal, separate target revenue levels would be established for residential customers and for a single collective group of commercial (including industrial) customers, and each of the HECO Companies would employ

¹⁶ The Annual Evaluation Date provided in the RAM Provision.

separate RBAs for residential customers and for commercial customers. For the purpose of calculating the monthly difference to record to the RBAs, recorded adjusted revenue will include revenue from regular and optional rate schedule charges plus revenue from any interim or final rate increase adjustments that are in effect.

As explained in Exhibit "A", besides reflecting the accumulated monthly differences, the RBA will also reflect the accrual of interest at an annual rate equal to 6% (the same as that given on customer deposits and specified in the HECO Companies' tariffs) - applied to the simple average of the beginning and ending monthly balances. This is an annual simple interest rate (i.e., will apply one-twelfth of this rate per month).

The estimated amounts in the year-end RBA balances will be billed to customers in an RBA rate adjustment that remains effective for a period of 12 months, from June 1st through May 31st of the following year. By March 31st of each year, the Companies will notify the Commission of the RBA year-end balances.

Establishment of RBA Provisions

HECO has requested the establishment of a RBA to record the monthly differences between the approved interim revenue requirement for electric sales revenues¹⁷ in its 2009 test year rate case (target revenue) and the electric sales recorded adjusted revenues (the comparison will be made with revenues for fuel and purchased power expenses and other surcharges removed).¹⁸ The proposed RBA will be modified to reflect this Joint Decoupling Proposal. HELCO and MECO will file proposed similar RBA Provisions with their general rate increase applications for 2009 or 2010 test years.

¹⁷ The allocation of the revenue requirements to the remaining months in the year will be specified in the Companies' tariffs.

¹⁸ In its 2009 rate case (Docket No. 2008 0083), Rate Case Update, HECO T-1, pages 8-11, HECO proposed the establishment of an RBA to be implemented upon the issuance of an interim order by the Commission.

The initial tariff sheet filing is expected for HECO at the time of the interim decision and order in the test year 2009 rate case. The RBA Provision would be applicable to all rate schedules in place at the time the RBA Provision becomes effective. For illustration purposes, the RBA Provision (Exhibit "A") lists the rate schedules listed in HECO's presently effective rate schedules. At that point the tariff filing will include only the monthly target revenue for the purposes of calculating amounts to be attributed to the RBA accounts. By March 31, 2010, HECO would make a tariff filing under the RAM Provision to be effective June 1, 2010.

HECO would make subsequent tariff filings in March of each year to establish the target revenue for the calendar year based on the RAM Revenue Adjustment and to re-set the RBA rate adjustments for the calendar year based on clearing out the expected RBA balances at the end of the last calendar year plus recovering the RAM Revenue Adjustment for the current calendar year. The RAM Revenue Adjustment in the test year for HECO would be designated interim and subject to refund in the event the Commission finds a lower authorized base revenue amount to be reasonable for the 2011 test year.

In addition, HECO will make tariff filings when necessary during the year to re-set target revenues and to re-set RBA rate adjustments for re-calculated RAM Revenue Adjustments based on issuance of interim or final decision and orders in pending rate cases.

HELCO and MECO will follow the same notice procedures described above, commencing with an interim decision and order in their test year 2009 or 2010 rate cases. The RAM Revenue Adjustment for 2012 or 2013 to coincide with the next HELCO and

MECO rate cases would be designated interim and subject to refund in the event the Commission finds a lower authorized base revenue amount to be reasonable for those test years.

MECO and HELCO have not yet filed their 2009 or 2010 test year general rate cases and the Companies anticipate that the interim decision and orders for these rate cases will not be issued until 2010 or 2011. With the issuance of these interim decision and orders, MECO and HELCO would be allowed, subject to timely filings of supporting calculations and workpapers, to apply the appropriate RAM indices to escalate the 2009 or 2010 test year revenue requirements approved in the interim decision to reflect Authorized Base Revenues and RAM Revenue Adjustments for year 2010 or 2011, which will then be used as the target revenue for 2010 or 2011. Since such interim decision and orders are not expected until 2010 or 2011, the initial target revenues for 2010 or 2011 filed for HELCO and MECO should be based on the test year 2009 or 2010 revenue requirement approved in the interim decision and order plus the appropriate RAM Revenue Adjustment for 2010 or 2011.

RBA Provision Filing Process

Similar to the IRP Cost Recovery Provision, the revenue decoupling mechanism (i.e., the RBA and RAM) is an automatic rate adjustment clause. Therefore, the HECO Companies will file the RBA and RAM tariff changes through tariff transmittal letters, as they file tariff changes for other automatic rate adjustment clauses.

By March 31st of the post test year (i.e., the RAM Period as set forth in the RAM Provision), HECO Companies will file a tariff with the Commission to implement the RBA rate adjustments in accordance with the RBA and RAM Provision.

The Companies will provide the schedules and supporting documentation for the calculation of the Earnings Sharing and RAM Revenue Adjustment as described in the RAM Provision, §1 & §2, along with the Company's calculation (with supporting documentation) of the historical 5-year average of baseline and major capital projects' plant in service and CIAC; and the Company's most recent sales forecast for the RAM Period.

Notification of Target Revenue Requirement and RBA Rate Adjustments

The filing of the RBA balance and RBA rate adjustments, incorporating RAM Revenue Adjustments, will take the form of a tariff filing.¹⁹ The data components to the filing are the RBA balances to support the residential and commercial and industrial RBA rate adjustments, the Company's annual financial and RAM Revenue Adjustment schedules identified in §1 and §2 of the RAM Provision, and projected residential and commercial and industrial sales for the RAM Period. The HECO Companies will file tariff sheets that show the monthly allocation factors for the target revenue for the calendar year and the applicable RBA rate adjustment in cents per kWh. Separate monthly allocation factors and RBA rate adjustments will be presented for residential and commercial customers. In the filing, workpapers will be provided that support the derivation and calculation of the monthly allocation factors and the per kWh charges.

Sources for this data will be actual financial reports used for ratemaking purposes and the interim or final decision and orders from the Companies' rate proceedings.

¹⁹ For SCE, the establishment and implementation of post test year revenue requirements is accomplished through an advice letter to change Preliminary Statements in its tariff. The advice letter is an informal request by a utility for Commission authorization to furnish service under rates, charges, terms or conditions other than those contained in the utility's tariffs then in effect. "The advice letter process provides a quick and simplified review of the types of utility requests that are expected neither to be controversial nor to raise important policy questions." California Public Utilities Commission, General Order 96-B, General Rules, Section 5.1, Matters Appropriate to Advice Letters.

Although the workpapers and computations should be straightforward as they will be based on an established method that is approved in the instant proceeding, the effective date of the tariffs will be 62 days after filing, providing adequate time for review. As described in Sections 6-61-61 and 6-61-111 of the Hawaii Administrative Rules, Title 6, Chapter 61, based upon the Companies' filed schedules, the Joint Decoupling Proposal provides for a 47-day review period following the March 31 Evaluation Date.²⁰ Thus, the Consumer Advocate and other parties will have up to the 15th day before the June 1 effective date of the tariff to file any protests. In the absence of any protests, the RBA rate adjustments, incorporating the RAM Revenue Adjustments, will go into effect on the May 1 effective date and the Commission will confirm in its monthly Tariff Order the effectiveness of the Company's proposed tariff. As a further safeguard, the RBA mechanism provides that the target revenue will be revised to correct for any errors in the calculation of the RAM Revenue Adjustment for any previous period to the extent that such errors are identified 15 days prior to the implementation date specified in the RAM Provision.

The Joint Decoupling Proposal calls for separate per kWh decoupling adjustments for residential and non-residential customers. The dollar value of such per kWh adjustments can be presented as a separate line item on the customer bill, can be combined with a particular bill component on the customer bill, or can be reflected within each bill component on the customer bill. The existing billing system cannot practically accommodate a line item for a decoupling adjustment for each bill component on the customer bill, and even if it could, such a bill presentation would be unduly complex and likely confusing to most customers. The Joint Decoupling Proposal proposes to present a

²⁰ This is 15 days before the effective date of proposed the RBA Rate Adjustment tariff.

single decoupling adjustment as a separate line item on the customer bill for its simplicity and transparency.

F. ON-GOING REVIEW OF REVENUE DECOUPLING

A number of review provisions are included in the HCEI Agreement, which provide the Commission, the Consumer Advocate, and the Companies the ability to review the performance of revenue decoupling and take steps to correct, suspend, or terminate the mechanism. They include the following:

- (1) The parties agree that the decoupling mechanism that will be implemented will be subject to review and approval by the PUC.
- (2) The Commission may review the decoupling mechanism at any time if it determines that the mechanism is not operating in the interests of the ratepayers.
- (3) The utility or the Consumer Advocate may also file a request to review the impact of the decoupling mechanism.
- (4) The Commission may unilaterally discontinue the decoupling mechanism if it finds that the public interest requires such action.

The Consumer Advocate and the Companies propose that the review of the continuation of the RBA and RAM provisions be undertaken in the Companies second round of rate cases, to occur in 2011 through 2013.

The Joint Decoupling Proposal contemplates a three-year sales decoupling cycle (if decoupling is continued after the initial period), i.e., where rate cases are filed for test years that are three years apart. However, because the three HECO Companies will all have the same starting test year for the rate case cycles and are supported by the same regulatory department and the same witnesses for certain testimonies, in order to minimize the need for resources and be able to submit rate case filings of the highest quality possible in the future, the rate cases after the 2009 or 2010 test year would be staggered, so that three-year rate case cycles could commence thereafter. This will result

in the filing of only one rate case per year after the initial round of 2009 or 2010 test year rate cases. Hence, the scheduling of the next round of rate cases would be as follows:

Company	Year of Filing	Test Year
HECO	2010	2011
MECO/HELCO	2011	2012
MECO/HELCO	2012	2013

The ability of HECO to refrain from filing a 2010 test year rate proceeding and wait until 2011 for its next rate case will depend on the award issued for its 2009 test year rate case and the outcome of this Decoupling Docket. Should HECO determine that a 2010 rate case filing is necessary, the HECO Companies will revisit the timing and starting point for the proposed 3-year general rate case cycle.

All parties reserve the right to initiate formal rate proceedings to replace and terminate the RAM at any time on a schedule other than as planned. The HECO Companies also acknowledge under their proposal that the Commission may unilaterally discontinue the decoupling mechanism if it finds that the public interest requires such action.

III. CONCLUSION

As a result of (1) their informal exchange of information focused on their preliminary proposals, (2) the exchange of information and concepts at the Technical Workshops and Settlement Discussions, in response to the Scoping Paper and the questions posed therein, and in response to the information requests submitted on behalf of the Commission by NRRI, (3) their informal exchange of information focused on their joint decoupling proposal that was submitted with their Initial SOP, and (4) extensive

discussions focused on resolving their remaining differences, the HECO Companies and the Consumer Advocate have developed this Joint Decoupling Proposal.

The Joint Decoupling Proposal includes a sales decoupling mechanism, which will be implemented through a RBA, and a RAM. The purpose of the sales decoupling mechanism is to remove the linkage between utility sales and revenues, in order to encourage energy efficiency. The purpose of the Revenue Adjustment Mechanism is to adjust revenues decoupled from sales to reflect estimated changes in revenue requirements between rate cases, which should help maintain the utility's financial integrity and ability to invest in the infrastructure necessary to meet Hawaii's 70% clean energy objective, while maintaining reliable service to customers.

The Joint Decoupling Proposal is intended to be consistent with the decoupling mechanism agreed to in the HCEI Agreement.

The HECO Companies and the Consumer Advocate are aware that the decoupling mechanisms are new in Hawaii, although they have been implemented in other jurisdictions. Thus, the HCEI Agreement includes a number of proposed review provisions that have been included in the Joint Decoupling Proposal, which provide the Commission, the Consumer Advocate, and the HECO Companies the ability to review the performance of revenue decoupling and take steps to correct, suspend, or terminate the mechanism. Further, the Consumer Advocate has proposed, and the HECO Companies have accepted, a number of additional safeguards for ratepayers. For example, the provisions would extend to each of the HECO Companies' next round of rate cases, at which time, upon Commission review and evaluation, the provisions may be

extended, terminated or modified based upon evidence presented in those rate case proceedings.

Another proposed safeguard is an Earnings Sharing mechanism under which ratepayers would share in revenue equivalents for actual ROE levels achieved above the authorized ROE in increasing shares as the differential between achieved and authorized ROE increases in accordance with a proposed earnings sharing "grid." The proposed earning sharing grid is asymmetrical, with no surcharges to customers if achieved ROE is below the authorized level.

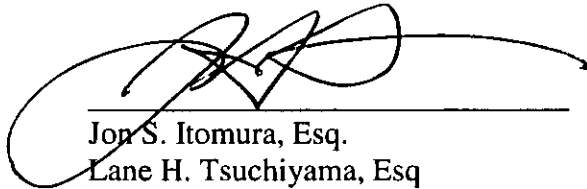
The specific tariff provisions included in the Joint Decoupling Proposal are (1) a RBA Provision, as set forth in Exhibit "A", and (2) a RAM Provision, as set forth in Exhibit "B".

DATED: Honolulu, Hawaii, May 11, 2009.



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SHEET NO.
Effective

REVENUE BALANCING ACCOUNT ("RBA") PROVISION

ILLUSTRATIVE EXAMPLE FOR HAWAIIAN ELECTRIC COMPANY, INC.

Supplement To:

Schedule R - Residential Service
Schedule E - Electric Service For Employees
Schedule G - General Service Non-Demand
Schedule J - General Service Demand
Schedule H - Commercial Cooking, Heating, Air
Conditioning, and Refrigeration Service
Schedule PS - Large Power Secondary Voltage Service
Schedule PP - Large Power Primary Voltage Service
Schedule PT - Large Power Transmission Voltage Service
Schedule F - Public Street Lighting, Highway Lighting
and Park and Playground Floodlighting
Schedule U - Time of Use Service
Schedule TOU-R - Residential Time-of-Use Service
Schedule TOU-C - Commercial Time-of-Use Service
Schedule SS - Standby Service

All terms and provisions of Schedules R, E, G, J, H, PS, PP, PT, F, U, TOU-R, TOU-C, and SS are applicable except that the total base rate charges for each billing period shall be adjusted by the Revenue Balancing Account Rate Adjustments shown below:

A: PURPOSE:

The purpose of the Revenue Balancing Account ("RBA") is to record: 1) the difference between the Hawaiian Electric Company's (HECO's) target revenue and recorded adjusted revenue, and 2) monthly interest applied to the simple average of the beginning and ending month balances in the RBA. In addition, the recovery provision of this tariff provides for collection or return of the calendar year-end balance in the RBA and recovery of the RAM Revenue Adjustment provided in the Rate Adjustment Mechanism ("RAM") Provision over the subsequent June 1st through May 31st period. The RBA is established in accordance with the Commission order in Docket No. 2008-0083.

B: TARGET REVENUE:

For the purpose of the RBA, the target revenue is the most recent Authorized Base Revenue approved by the Public Utilities Commission (PUC), plus or minus the RAM Revenue Adjustment calculated under the RAM Provision, adjusted to remove amounts for applicable revenue taxes. The target revenue will exclude revenue for fuel and purchased power expenses that are recovered either in base rates or in a purchased power adjustment clause and all revenue being separately tracked or recovered through any other surcharge or rate tracking mechanism. The target revenue is allocated to separate RBA sub-

HAWAIIAN ELECTRIC COMPANY, INC.

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REVENUE BALANCING ACCOUNT ("RBA") PROVISION

accounts, one for residential customers and one for all commercial and industrial customers collectively, based on the approved rate design that implements an approved revenue requirement from a rate case.

The target revenue shall be revised to correct for any errors in the calculation of the RAM Revenue Adjustment for any previous period to the extent that such errors are identified 15 days prior to the Annual implementation date specified in the RAM Provision..

Monthly Allocation Factors for the Target Revenue are as follows:

	Residential	Commercial & Industrial
January	8.40%	7.83%
February	7.27%	7.31%
March	8.00%	8.05%
April	7.88%	7.86%
May	8.17%	8.41%
June	8.37%	8.36%
July	8.68%	8.70%
August	9.08%	9.03%
September	8.72%	8.83%
October	8.75%	8.95%
November	8.26%	8.36%
December	<u>8.42%</u>	<u>8.31%</u>
Total	100.00%	100.00%

These factors are based on the mWh sales forecast approved by the Commission in HECO's test year 2009 rate case and shall be updated in any subsequent test year rate case.

C: BALANCING ACCOUNT ENTRIES:

Entries to the RBA residential sub-account and commercial and industrial sub-account will be recorded monthly. A debit entry to the RBA will be made equal to the target revenue as defined in Section B. above, times the appropriate monthly allocation factor in the table above. A credit entry to the RBA will be made equal to the recorded adjusted revenue. The recorded adjusted revenue is defined to include the electric sales revenue from authorized base rates, plus revenue from any authorized interim rate increase, plus revenue from any RBA rate adjustment, but excluding revenue for fuel and purchased power expenses, IRP/DSM, any Commission Ordered one-time rate refunds or credits or other surcharges, and adjusted to remove amounts for applicable revenue taxes.

Interest will be recorded monthly to the RBA sub-accounts by multiplying the simple average of the beginning and ending month balance in the RBA sub-account times the Interest Rate divided by 12. The Interest Rate shall be 6 percent.

D: RECOVERY OF BALANCING ACCOUNT AMOUNTS:

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REVENUE BALANCING ACCOUNT ("RBA") PROVISION

At the Annual Evaluation Date provided in the Rate Adjustment Mechanism Provision, the Company will file with the Commission a statement of the previous calendar year-end balance in each RBA sub-account and the RAM Revenue Adjustment for the current calendar year, along with supporting calculations. Both an amortization of the previous calendar year-end balance in the RBA sub-accounts, adjusted for any Earnings Sharing Revenue Credits or Major Capital Projects Credits and the RAM Revenue Adjustment will be recovered through separate per-kWh RBA rate adjustments, one for residential customers and one for commercial and industrial customers, respectively, over the 12 months from June 1 of the current calendar year to May 31 of the succeeding calendar year. The residential RBA adjustment will recover the previous calendar year-end balance in the residential RBA sub-account plus a share of the RAM Revenue Adjustment in the same proportion as the residential rate class' share of the total revenue requirement approved in the Company's most recent rate case. The commercial/industrial RBA adjustment will recover the previous calendar year-end balance in the commercial/industrial RBA plus the balance of the RAM Revenue Adjustment that is not assigned to the residential RBA adjustment.

E: REVENUE BALANCING ACCOUNT RATE ADJUSTMENTS:

The RBA rate adjustments are comprised of the calculated values from Section D above, adjusted to include amounts for applicable revenue taxes. The RBA rate adjustments are calculated based on the Company's forecast of mWh sales over the RBA rate adjustment recovery period.

Effective June 1, 2010 to May 31, 2011

Residential RBA Adjustment

Rate Schedules R, E, TOU-R.....0.0000 ¢/kWh

Commercial/Industrial RBA Adjustment

Rate Schedules G, J, H, PS, PP, PT, F, U, TOU-C, SS.....0.0000 ¢/kWh

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REVENUE BALANCING ACCOUNT ("RBA") PROVISION

ILLUSTRATIVE EXAMPLE FOR HAWAIIAN ELECTRIC COMPANY, INC.

Supplement To:

Schedule R - Residential Service
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Schedule PP - Large Power Primary Voltage Service
Schedule PT - Large Power Transmission Voltage Service
Schedule F - Public Street Lighting, Highway Lighting
and Park and Playground Floodlighting
Schedule U - Time of Use Service
Schedule TOU-R - Residential Time-of-Use Service
Schedule TOU-C - Commercial Time-of-Use Service
Schedule SS - Standby Service

All terms and provisions of Schedules R, E, G, J, H, PS, PP, PT, F, U, TOU-R, TOU-C, and SS are applicable except that the total base rate charges for each billing period shall be adjusted by the Revenue Balancing Account Rate Adjustments shown below:

A: PURPOSE:

The purpose of the Revenue Balancing Account ("RBA") is to record: 1) the difference between the Hawaiian Electric Company's (HECO's) target revenue and recorded adjusted revenue, and 2) monthly interest applied to the simple average of the beginning and ending month balances in the RBA. In addition, the recovery provision of this tariff provides for collection or return of the calendar year-end balance in the RBA and recovery of the RAM Revenue Adjustment provided in the Rate Adjustment Mechanism ("RAM") Provision over the subsequent June 1st through May 31st period. The RBA is established in accordance with the Commission order in Docket No. 2008-0083.

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B: TARGET REVENUE:

For the purpose of the RBA, the target revenue is the most recent Authorized Base Revenue approved by the Public Utilities Commission (PUC), plus or minus the RAM Revenue Adjustment calculated under the RAM Provision, adjusted to remove amounts for applicable revenue taxes. The target revenue will exclude revenue for fuel and purchased power expenses that are recovered either in base rates or in a purchased power adjustment clause and all revenue being separately tracked or recovered through any other surcharge or rate tracking mechanism. The target revenue is allocated to separate RBA sub-

HAWAIIAN ELECTRIC COMPANY, INC.

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REVENUE BALANCING ACCOUNT ("RBA") PROVISION

accounts, one for residential customers and one for all commercial and industrial customers collectively, based on the approved rate design that implements an approved revenue requirement from a rate case.

The target revenue shall be revised to correct for any errors in the calculation of the RAM Revenue Adjustment for any previous period to the extent that such errors are identified 15 days prior to the Annual implementation date specified in the RAM Provision..

Monthly Allocation Factors for the Target Revenue are as follows:

	Residential	Commercial & Industrial
January	8.40%	7.83%
February	7.27%	7.31%
March	8.00%	8.05%
April	7.88%	7.86%
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June	8.37%	8.36%
July	8.68%	8.70%
August	9.08%	9.03%
September	8.72%	8.83%
October	8.75%	8.95%
November	8.26%	8.36%
December	<u>8.42%</u>	<u>8.31%</u>
Total	100.00%	100.00%

These factors are based on the mWh sales forecast approved by the Commission in HECO's test year 2009 rate case and shall be updated in any subsequent test year rate case.

C: BALANCING ACCOUNT ENTRIES:

Entries to the RBA residential sub-account and commercial and industrial sub-account will be recorded monthly. A debit entry to the RBA will be made equal to the target revenue as defined in Section B. above, times the appropriate monthly allocation factor in the table above. A credit entry to the RBA will be made equal to the recorded adjusted revenue. The recorded adjusted revenue is defined to include the electric sales revenue from authorized base rates, plus revenue from any authorized interim rate increase, plus revenue from any RBA rate adjustment, but excluding revenue for fuel and purchased power expenses, IRP/DSM, any Commission Ordered one-time rate refunds or credits or other surcharges, and adjusted to remove amounts for applicable revenue taxes.

Interest will be recorded monthly to the RBA sub-accounts by multiplying the simple average of the beginning and ending month balance in the RBA sub-account times the Interest Rate divided by 12. The Interest Rate shall be 6 percent.

D: RECOVERY OF BALANCING ACCOUNT AMOUNTS:

HAWAIIAN ELECTRIC COMPANY, INC.

SHEET NO. _____
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REVENUE BALANCING ACCOUNT ("RBA") PROVISION

At the Annual Evaluation Date provided in the Rate Adjustment Mechanism Provision, the Company will file with the Commission a statement of the previous calendar year-end balance in each RBA sub-account and the RAM Revenue Adjustment for the current calendar year, along with supporting calculations. Both an amortization of the previous calendar year-end balance in the RBA sub-accounts, adjusted for any Earnings Sharing Revenue Credits or Major Capital Projects Credits and the RAM Revenue Adjustment will be recovered through separate per-kWh RBA rate adjustments, one for residential customers and one for commercial and industrial customers, respectively, over the 12 months from June 1 of the current calendar year to May 31 of the succeeding calendar year. The residential RBA adjustment will recover the previous calendar year-end balance in the residential RBA sub-account plus a share of the RAM Revenue Adjustment in the same proportion as the residential rate class' share of the total revenue requirement approved in the Company's most recent rate case. The commercial/industrial RBA adjustment will recover the previous calendar year-end balance in the commercial/industrial RBA plus the balance of the RAM Revenue Adjustment that is not assigned to the residential RBA adjustment.

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E: REVENUE BALANCING ACCOUNT RATE ADJUSTMENTS:

The RBA rate adjustments are comprised of the calculated values from Section D above, adjusted to include amounts for applicable revenue taxes. The RBA rate adjustments are calculated based on the Company's forecast of mWh sales over the RBA rate adjustment recovery period.

Effective June 1, 2010 to May 31, 2011

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Residential RBA Adjustment

Rate Schedules R, E, TOU-R.....0.0000 ¢/kWh

Commercial/Industrial RBA Adjustment

Rate Schedules G, J, H, PS, PP, PT, F, U, TOU-C, SS.....0.0000 ¢/kWh

REVISED SHEET NO. _____
Effective January 1, 2010

RATE ADJUSTMENT MECHANISM PROVISION

ILLUSTRATIVE EXAMPLE FOR HAWAIIAN ELECTRIC COMPANY, INC.

Rate Adjustment Mechanism ("RAM") Provision

Purpose

This mechanism is subject to review and continuation, termination or modification in the utility's next base rate case proceeding, upon a showing by the utility and finding by the Commission that continuation or modification is appropriate. As part of its submitted testimony in the base rate case, the Company will include a summary report on the status of certain HCEI initiatives. The RAM mechanism is designed to determine the change in annual utility base revenue levels, recognizing certain estimated changes in the utility's cost to provide service. If, through the application of this mechanism, it is determined that annual utility base revenues should be decreased or increased, then the RAM Revenue Adjustment will be applied within the Revenue Balancing Account Provision. The RAM Revenue Adjustment established for RAM Period calendar year 2011 shall remain in effect until the Commission approves a base revenue level in the Company's 2011 test year rate application.

Definitions

- a) The **Annual Evaluation Date** shall be the Date the Company will make its annual filing under this mechanism. The Annual Evaluation Date shall be no later than March 31, of each year commencing March 31, 2010.
 - b) The **Evaluation Period** is defined as the historical twelve month period ending December 31, of each calendar year preceding the Annual Evaluation Date. The Evaluation Period is used solely to determine achieved earnings and any sharing of such earnings above the Authorized Return on Equity.
 - c) The **RAM Period** is defined as the calendar year containing the Annual Evaluation Date.
 - d) The **Labor Cost Escalation Rate** shall be the applicable annual percentage general wage rate increase provided for in currently effective union labor agreements for use in escalating
- HAWAIIAN ELECTRIC COMPANY, INC.

REVISED SHEET NO. _____
Effective January 1, 2010

RATE ADJUSTMENT MECHANISM

wage and salary Base Expenses for both union and non-union employees to determine the RAM Revenue Adjustment for each RAM Period. In the event no union labor agreement exists for a RAM Period, the most recently effective annual general percentage increase rate shall apply.

e) The **Non-labor Cost Escalation Rate** shall be the consensus estimated annual change in the Gross Domestic Product Price Indicator ("GDPPI") to escalate non-labor Base Expenses to determine the RAM Revenue Adjustment for each RAM Period. The GDPPI escalation rate shall be the consensus projection published by the Blue Chip Economic Indicators (Aspen Publishing) each February for the current Rate Adjustment Period. In the event that the Blue Chip Economic Indicators forecast of the GDPPI is not available, the Consumer Advocate, Company, and other parties to the most recent rate case, with approval of the Commission, shall jointly select an alternative data source, or national economic index similar to GDPPI, as appropriate.

f) The annual **Labor Productivity Offset** shall be fixed at 0.76 percent (76/100 of one percent) and will be subtracted from the Labor Cost Escalation Rates applicable to Base Expenses to determine the authorized RAM Revenue Adjustment for each RAM Period.

g) The **Base Expenses** shall be the labor and non-labor operations and maintenance expense amounts approved by the Commission in the most recently completed rate case where the test year was the Evaluation Period, or alternatively as approved by the Commission for the immediately preceding year Rate Adjustment Mechanism results if the Evaluation Period was not a test year. Base Expenses shall not include any fuel, purchased power, IRP/DSM, pension, Other Post Employment Benefits ("OPEB"), or Clean Energy/Renewable Energy Infrastructure costs that are subject to recovery through separate rate tracking mechanisms.

h) The **Major Capital Projects** shall be those capital investment projects that require application and Commission approval under the Commission's General Order No. 7, but

HAWAIIAN ELECTRIC COMPANY, INC.

Docket No. .

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Effective January 1, 2010

RATE ADJUSTMENT MECHANISM PROVISION

excluding those projects included in the Clean Energy Infrastructure Surcharge.

i) The **Baseline Capital Projects** shall be the total amounts of capital investment completed and closed to Plant in Service, excluding amounts related to Major Capital Projects.

j) The **Return on Investment** shall be the overall weighted percentage rate of return on debt and equity capital approved by the Commission in the most recently completed rate case.

k) The **Authorized Return on Equity** shall be the overall weighted percentage rate of return on equity capital approved by the Commission in the most recently completed rate case.

l) The **Exogenous Tax Changes** shall be the changes in tax laws or regulations that are estimated to impact Authorized Base Rate Revenues by two million dollars (\$2,000,000) or more.

m) The **Rate Base** shall be the average net investment estimated for the RAM Period, including each of the elements of rate base reflected within the most recent rate case Decision & Order issued by the Commission, quantified in the manner prescribed in part (f) of Section 2 of the Rate Adjustment Mechanism.

n) The **Authorized Base Revenue** shall be the annual amount of revenue required for the utility to recover its estimated Operations & Maintenance, Depreciation, Amortization and Tax expenses for the RAM Period, as well as the Return on Investment on projected Rate Base for the RAM Period, using the ratemaking conventions and calculations reflected within the most recent rate case Decision & Order issued by the Commission, quantified in the manner prescribed herein.

o) The **RAM Revenue Adjustment** shall be the difference between the calculated Authorized Base Revenue for the RAM Period and either: 1) the previous year's calculated Authorized Base Revenue; or 2) the revenue requirement approved by the Commission in an interim or final decision in the Company's general rate case, whichever is more recent. The RAM Revenue Adjustment determined by this RAM Provision is to be recovered

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through the RBA Provision commencing on June 1 and over the subsequent 12 months after June 1.

p) **Earnings Sharing Revenue Credits** shall be the amounts to be returned to customers as credits through the Revenue Balancing Account ("RBA") Provision, so as to implement the earnings sharing percentages and procedures described herein, commencing on June 1 of the calendar year containing the Annual Evaluation Date and over the subsequent 12 months after June 1.

q) **Major Capital Projects Credits** shall be the amounts to be returned to customers through the Revenue Balancing Account Provision, to reduce the preceding year's RAM Revenue Adjustment (including interest at the rate described in the RBA Provision) for specific major capital projects that were not placed into service within the first nine months of the preceding RAM Period as expected. The Major Capital Projects Credits are to be refunded through the RBA Provision, commencing on June 1 of the calendar year containing the Annual Evaluation Date and over the subsequent 12 months after June 1.

Rate Adjustment Mechanism

The Company shall file with the Commission, the Consumer Advocate and each party to the Company's most recent rate case proceeding, the schedules specified below:

Evaluation Period Earnings Sharing:

1. For the twelve month period ending December 31, of each year (the "Evaluation Period"), with the filing to be made no later than March 31, of the year following the conclusion of the Evaluation Period. The schedules will include the following:

- a) Company's recorded actual average net plant in service, accumulated deferred income taxes, inventory, working capital, and other rate base components. The schedules

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shall also show the utility's depreciation expense, operating and maintenance expense, income taxes, taxes other than income taxes, and other components of income for return, revenues, and capital structure, cost of debt, overall cost of capital, and return on common equity in the format set forth in the final order establishing the Company's latest effective rates.

- b) All applicable accounting and pro forma adjustments historically required in annual reports filed with the Commission.
- c) Pro-forma adjustments to remove from recorded revenues any out-of-period Earnings Sharing Revenue Credits or Major Capital Projects Credits recorded during the Evaluation Period, and
- d) A calculation comparing the achieved return on average common equity to the following earnings sharing grid, and indicating the Earnings Sharing Revenue Credit that should be recorded within the Revenue Balancing Account to effect the prescribed sharing of earnings above authorized levels:

ROE at or below the Authorized ROE	Retained entirely by shareholders - no customer credits
First 100 basis points (one percent) over Authorized ROE	25% share credit to customers
Next 200 basis points (two percent) over Authorized ROE	50% share credit to customers
All ROE exceeding 300 basis points (three percent) over Authorized ROE	90% share credit to customers

RAM Period RAM Revenue Adjustment:

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- 2) The Company shall provide additional schedules indicating the following proposed RAM Revenue Adjustment calculations applicable for the RAM Period using the methodology set forth below:
- a) The Base Expenses shall be segregated between labor and non-labor amounts and treated as follows:
 - i. The labor component shall be quantified for the RAM Period by application of the Labor Cost Escalation Rate, reduced to account for the Productivity Offset to labor expenses.
 - ii. The Non-labor components quantified for the RAM Period by application of the Non-labor Escalation Rate.
 - iii. Tracked O&M expenses for fuel, purchased power, pension/OPEBs, IRP/DSM or other rate adjustment provisions are to be carried forward for the RAM Period at the fixed amounts established in the most recent rate case proceeding.
 - b) Depreciation and amortization expenses shall be quantified for the RAM Period by application of Commission-approved accrual rates to the actual recorded Plant in Service balances at the end of the Evaluation Period.
 - c) The Authorized Base Revenue required for Rate Base shall be determined by multiplying the applicable Return on Investment percentage rate times Rate Base. The Authorized Base Revenue associated with return on investment shall include related income taxes on the equity components of such return. The quantification of Rate Base is specified in greater detail in part (f) of this Section 2.
 - d) The Authorized Base Revenue impact of any Exogenous Tax Changes shall be included in the RAM Period calculation of Authorized Base Revenues.
 - e) Revenue taxes shall be adjusted to account for the change in parts (a) through (d) of this Section 2.
 - f) Rate Base for the RAM Period shall be quantified as follows:
 - i. Plant in Service, Accumulated Depreciation, Accumulated Deferred Income Taxes and

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Contributions in Aid of Construction ("CIAC") shall be a two-point average of actual recorded balance sheet data at December 31 of the Evaluation Period, plus projected values at December 31 of the RAM Period determined as prescribed in parts (ii) through (v), below.

- ii. Plant in Service shall be quantified by adding to the recorded balances at December 31 of the Evaluation Period, the simple average of Baseline Capital Projects plant additions recorded in the immediately preceding five calendar years, plus the estimated cost of completed Major Capital Projects that are anticipated to be in service by September 30 of the RAM Period. The cost of Major Capital Projects shall be limited to the dollar amounts previously approved by the Commission.
- iii. Accumulated Depreciation at December 31 of the RAM Period shall be quantified by increasing the recorded balances at December 31 of the Evaluation Period by the amount set forth in Section 2 part (b) above.
- iv. CIAC shall be quantified by adding to the recorded balance at December 31 of the Evaluation Period an estimate of the net change for the RAM Period. The net change shall be based on a simple average of cash and in-kind CIAC for the immediately preceding five calendar years for programs (i.e., numerous low cost capital projects) plus specific engineering estimates of any contributions for the Major Capital Projects anticipated to be in service by September 30 of the RAM Period.
- v. Accumulated Deferred Income Taxes shall be quantified by adding to the recorded balances at December 31 of the Evaluation Period the estimated tax effect of the depreciation timing difference (i.e., difference between book depreciation and tax depreciation) on the Baseline Capital Projects and Major Capital

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Projects added to rate base during the RAM Period.

- vi. Working Cash and all other elements of rate base not specifically addressed above shall be fixed at the dollar amount approved by the Commission in the last rate case Decision & Order. These elements of rate base shall be held constant until revised by a Commission Decision & Order in a subsequent general rate case.

Evaluation Procedures

Complete, indexed workpapers and electronic files supporting the RAM Adjustment Schedules shall be provided to the Commission, the Consumer Advocate and all other parties to the Utility's most recent rate case proceeding, coincident with the date of filing. The Company will be prepared to provide supplemental information as may be requested to ensure adequate review by the Commission, Consumer Advocate or other parties. The Consumer Advocate and the other parties may propose any adjustments determined to be required to bring the schedules into compliance with the above provisions and will work collaboratively to reach agreement on any proposed adjustments. As described in Sections 6-61-61 and 6-61-111 of the Hawaii Administrative Rules, Title 6, Chapter 61, based upon the Company's filed schedules and in the absence of any protests submitted by the Consumer Advocate or other parties not later than 15 days before the June 1 effective date of the RBA Rate Adjustments described in the RBA Provision tariff, the RBA Rate Adjustments incorporating the RAM Revenue Adjustment shall go into effect on the June 1 effective date and the Commission shall confirm in its monthly Tariff Order the effectiveness of the Company's proposed tariff, so as to achieve the revenue levels approved for both the Evaluation Period and RAM Period.

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Notice of the annual Rate Adjustment Mechanism filing shall be provided to all affected customers of the Utility in accordance with the provisions of this section by publication in newspapers of general circulation within 30 days and by including notification with its billing statements within 60 days after the Company makes its annual filing pursuant to this tariff. The notice to customers shall include the following information:

- a) A description of the proposed revision of revenues and Earnings sharing credits;
- b) The effect of the proposed RAM Revenue Adjustment on the rates applicable to each customer class and on the typical bill for residential customers; and
- c) The Company's address, telephone number and website where information concerning the proposed RAM Revenue adjustment may be obtained.

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RATE ADJUSTMENT MECHANISM PROVISION

ILLUSTRATIVE EXAMPLE FOR HAWAIIAN ELECTRIC COMPANY, INC.

Rate Adjustment Mechanism ("RAM") Provision

Purpose

This mechanism is subject to review and continuation, termination or modification in the utility's next base rate case proceeding, upon a showing by the utility and finding by the Commission that continuation or modification is appropriate. As part of its submitted testimony in the base rate case, the Company will include a summary report on the status of certain HCEI initiatives. The RAM mechanism is designed to determine the change in annual utility base revenue levels, recognizing certain estimated changes in the utility's cost to provide service. If, through the application of this mechanism, it is determined that annual utility base revenues should be decreased or increased, then the RAM Revenue Adjustment will be applied within the Revenue Balancing Account Provision. The RAM Revenue Adjustment established for RAM Period calendar year 2011 shall remain in effect until the Commission approves a base revenue level in the Company's 2011 test year rate application.

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Definitions

a) The **Annual Evaluation Date** shall be the Date the Company will make its annual filing under this mechanism. The Annual Evaluation Date shall be no later than March 31, of each year commencing March 31, 2010.

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b) The **Evaluation Period** is defined as the historical twelve month period ending December 31, of each calendar year preceding the Annual Evaluation Date. The Evaluation Period is used solely to determine achieved earnings and any sharing of such earnings above the Authorized Return on Equity.

c) The **RAM Period** is defined as the calendar year containing the Annual Evaluation Date.

d) The **Labor Cost Escalation Rate** shall be the applicable annual percentage general wage rate increase provided for in currently effective union labor agreements for use in escalating

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wage and salary Base Expenses for both union and non-union employees to determine the RAM Revenue Adjustment for each RAM Period. In the event no union labor agreement exists for a RAM Period, the most recently effective annual general percentage increase rate shall apply.

e) The **Non-labor Cost Escalation Rate** shall be the consensus estimated annual change in the Gross Domestic Product Price Indicator ("GDPPI") to escalate non-labor Base Expenses to determine the RAM Revenue Adjustment for each RAM Period. The GDPPI escalation rate shall be the consensus projection published by the Blue Chip Economic Indicators (Aspen Publishing) each February for the current Rate Adjustment Period. In the event that the Blue Chip Economic Indicators forecast of the GDPPI is not available, the Consumer Advocate, Company, and other parties to the most recent rate case, with approval of the Commission, shall jointly select an alternative data source, or national economic index similar to GDPPI, as appropriate.

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f) The annual **Labor Productivity Offset** shall be fixed at 0.76 percent (76/100 of one percent) and will be subtracted from the Labor Cost Escalation Rates applicable to Base Expenses to determine the authorized RAM Revenue Adjustment for each RAM Period.

g) The **Base Expenses** shall be the labor and non-labor operations and maintenance expense amounts approved by the Commission in the most recently completed rate case where the test year was the Evaluation Period, or alternatively as approved by the Commission for the immediately preceding year Rate Adjustment Mechanism results if the Evaluation Period was not a test year. Base Expenses shall not include any fuel, purchased power, IRP/DSM, pension, Other Post Employment Benefits ("OPEB"), or Clean Energy/Renewable Energy Infrastructure costs that are subject to recovery through separate rate tracking mechanisms.

h) The **Major Capital Projects** shall be those capital investment projects that require application and Commission approval under the Commission's General Order No. 7, but

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excluding those projects included in the Clean Energy Infrastructure Surcharge.

i) The **Baseline Capital Projects** shall be the total amounts of capital investment completed and closed to Plant in Service, excluding amounts related to Major Capital Projects.

j) The **Return on Investment** shall be the overall weighted percentage rate of return on debt and equity capital approved by the Commission in the most recently completed rate case.

k) The **Authorized Return on Equity** shall be the overall weighted percentage rate of return on equity capital approved by the Commission in the most recently completed rate case.

l) The **Exogenous Tax Changes** shall be the changes in tax laws or regulations that are estimated to impact Authorized Base Rate Revenues by two million dollars (\$2,000,000) or more.

m) The **Rate Base** shall be the average net investment estimated for the RAM Period, including each of the elements of rate base reflected within the most recent rate case Decision & Order issued by the Commission, quantified in the manner prescribed in part (f) of Section 2 of the Rate Adjustment Mechanism.

n) The **Authorized Base Revenue** shall be the annual amount of revenue required for the utility to recover its estimated Operations & Maintenance, Depreciation, Amortization and Tax expenses for the RAM Period, as well as the Return on Investment on projected Rate Base for the RAM Period, using the ratemaking conventions and calculations reflected within the most recent rate case Decision & Order issued by the Commission, quantified in the manner prescribed herein.

o) The **RAM Revenue Adjustment** shall be the difference between the calculated Authorized Base Revenue for the RAM Period and either: 1) the previous year's calculated Authorized Base Revenue; or 2) the revenue requirement approved by the Commission in an interim or final decision in the Company's general rate case, whichever is more recent. The RAM Revenue Adjustment determined by this RAM Provision is to be recovered

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through the RBA Provision commencing on June 1 and over the subsequent 12 months after June 1.

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p) **Earnings Sharing Revenue Credits** shall be the amounts to be returned to customers as credits through the Revenue Balancing Account ("RBA") Provision, so as to implement the earnings sharing percentages and procedures described herein, commencing on June 1 of the calendar year containing the Annual Evaluation Date and over the subsequent 12 months after June 1.

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q) **Major Capital Projects Credits** shall be the amounts to be returned to customers through the Revenue Balancing Account Provision, to reduce the preceding year's RAM Revenue Adjustment (including interest at the rate described in the RBA Provision) for specific major capital projects that were not placed into service within the first nine months of the preceding RAM Period as expected. The Major Capital Projects Credits are to be refunded through the RBA Provision, commencing on June 1 of the calendar year containing the Annual Evaluation Date and over the subsequent 12 months after June 1.

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Rate Adjustment Mechanism

The Company shall file with the Commission, the Consumer Advocate and each party to the Company's most recent rate case proceeding, the schedules specified below:

Evaluation Period Earnings Sharing:

1. For the twelve month period ending December 31, of each year (the "Evaluation Period"), with the filing to be made no later than March 31, of the year following the conclusion of the Evaluation Period. The schedules will include the following:

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- a) Company's recorded actual average net plant in service, accumulated deferred income taxes, inventory, working capital, and other rate base components. The schedules

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shall also show the utility's depreciation expense, operating and maintenance expense, income taxes, taxes other than income taxes, and other components of income for return, revenues, and capital structure, cost of debt, overall cost of capital, and return on common equity in the format set forth in the final order establishing the Company's latest effective rates.

- b) All applicable accounting and pro forma adjustments historically required in annual reports filed with the Commission.
- c) Pro-forma adjustments to remove from recorded revenues any out-of-period Earnings Sharing Revenue Credits or Major Capital Projects Credits recorded during the Evaluation Period, and
- d) A calculation comparing the achieved return on average common equity to the following earnings sharing grid, and indicating the Earnings Sharing Revenue Credit that should be recorded within the Revenue Balancing Account to effect the prescribed sharing of earnings above authorized levels:

ROE at or below the Authorized ROE	Retained entirely by shareholders - no customer credits
First 100 basis points (one percent) over Authorized ROE	25% share credit to customers
Next 200 basis points (two percent) over Authorized ROE	50% share credit to customers
All ROE exceeding 300 basis points (three percent) over Authorized ROE	90% share credit to customers

RAM Period RAM Revenue Adjustment:

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- 2) The Company shall provide additional schedules indicating the following proposed RAM Revenue Adjustment calculations applicable for the RAM Period using the methodology set forth below:
- a) The Base Expenses shall be segregated between labor and non-labor amounts and treated as follows:
 - i. The labor component shall be quantified for the RAM Period by application of the Labor Cost Escalation Rate, reduced to account for the Productivity Offset to labor expenses.
 - ii. The Non-labor components quantified for the RAM Period by application of the Non-labor Escalation Rate.
 - iii. Tracked O&M expenses for fuel, purchased power, pension/OPEBs, IRP/DSM or other rate adjustment provisions are to be carried forward for the RAM Period at the fixed amounts established in the most recent rate case proceeding.
 - b) Depreciation and amortization expenses shall be quantified for the RAM Period by application of Commission-approved accrual rates to the actual recorded Plant in Service balances at the end of the Evaluation Period.
 - c) The Authorized Base Revenue required for Rate Base shall be determined by multiplying the applicable Return on Investment percentage rate times Rate Base. The Authorized Base Revenue associated with return on investment shall include related income taxes on the equity components of such return. The quantification of Rate Base is specified in greater detail in part (f) of this Section 2.
 - d) The Authorized Base Revenue impact of any Exogenous Tax Changes shall be included in the RAM Period calculation of Authorized Base Revenues.
 - e) Revenue taxes shall be adjusted to account for the change in parts (a) through (d) of this Section 2.
 - f) Rate Base for the RAM Period shall be quantified as follows:
 - i. Plant in Service, Accumulated Depreciation, Accumulated Deferred Income Taxes and

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Contributions in Aid of Construction ("CIAC") shall be a two-point average of actual recorded balance sheet data at December 31 of the Evaluation Period, plus projected values at December 31 of the RAM Period determined as prescribed in parts (ii) through (v), below.

- ii. Plant in Service shall be quantified by adding to the recorded balances at December 31 of the Evaluation Period, the simple average of Baseline Capital Projects plant additions recorded in the immediately preceding five calendar years, plus the estimated cost of completed Major Capital Projects that are anticipated to be in service by September 30 of the RAM Period. The cost of Major Capital Projects shall be limited to the dollar amounts previously approved by the Commission.
- iii. Accumulated Depreciation at December 31 of the RAM Period shall be quantified by increasing the recorded balances at December 31 of the Evaluation Period by the amount set forth in Section 2 part (b) above.
- iv. CIAC shall be quantified by adding to the recorded balance at December 31 of the Evaluation Period an estimate of the net change for the RAM Period. The net change shall be based on a simple average of cash and in-kind CIAC for the immediately preceding five calendar years for programs (i.e., numerous low cost capital projects) plus specific engineering estimates of any contributions for the Major Capital Projects anticipated to be in service by September 30 of the RAM Period.
- v. Accumulated Deferred Income Taxes shall be quantified by adding to the recorded balances at December 31 of the Evaluation Period the estimated tax effect of the depreciation timing difference (i.e., difference between book depreciation and tax depreciation) on the Baseline Capital Projects and Major Capital

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Projects added to rate base during the RAM Period.

- vi. Working Cash and all other elements of rate base not specifically addressed above shall be fixed at the dollar amount approved by the Commission in the last rate case Decision & Order. These elements of rate base shall be held constant until revised by a Commission Decision & Order in a subsequent general rate case.

Evaluation Procedures

Complete, indexed workpapers and electronic files supporting the RAM Adjustment Schedules shall be provided to the Commission, the Consumer Advocate and all other parties to the Utility's most recent rate case proceeding, coincident with the date of filing. The Company will be prepared to provide supplemental information as may be requested to ensure adequate review by the Commission, Consumer Advocate or other parties. The Consumer Advocate and the other parties may propose any adjustments determined to be required to bring the schedules into compliance with the above provisions and will work collaboratively to reach agreement on any proposed adjustments. As described in Sections 6-61-61 and 6-61-111 of the Hawaii Administrative Rules, Title 6, Chapter 61, based upon the Company's filed schedules and in the absence of any protests submitted by the Consumer Advocate or other parties not later than 15 days before the June 1 effective date of the RBA Rate Adjustments described in the RBA Provision tariff, the RBA Rate Adjustments incorporating the RAM Revenue Adjustment shall go into effect on the June 1 effective date and the Commission shall confirm in its monthly Tariff Order the effectiveness of the Company's proposed tariff, so as to achieve the revenue levels approved for both the Evaluation Period and RAM Period.

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RATE ADJUSTMENT MECHANISM PROVISION

Notice of the annual Rate Adjustment Mechanism filing shall be provided to all affected customers of the Utility in accordance with the provisions of this section by publication in newspapers of general circulation within 30 days and by including notification with its billing statements within 60 days after the Company makes its annual filing pursuant to this tariff. The notice to customers shall include the following information:

- a) A description of the proposed revision of revenues and Earnings sharing credits;
- b) The effect of the proposed RAM Revenue Adjustment on the rates applicable to each customer class and on the typical bill for residential customers; and
- c) The Company's address, telephone number and website where information concerning the proposed RAM Revenue adjustment may be obtained.

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EXHIBIT C
SUMMARY OF DECOUPLING PROPOSAL AGREEMENT

I. Implementation Process & Timeline

ITEM	HECO COMPANIES' PROPOSAL	CONSUMER ADVOCATE'S PROPOSAL	AGREEMENT
A. Annual Filing Date for Approval of RBA Adjustment rates to Reflect Revenue Adjustments that Conform with the RAM Provision	November 30 th 1) Allows customers to anticipate billing change; 2) Allows Companies to use revenue estimate for budgeting & planning purposes.	February 28 th 1) Have prior year actuals of RBA roll-over balance from prior year and for estimation of rate base RAM; 2) Have 1 st quarter forecast for O&M RAM.	<u>JSOP</u> - February 28 th . The parties agree to the Consumer Advocate's proposal to allow use of actual recorded data for rate base calculations and depreciation and CIAC amortization expenses. <u>FSOP</u> – March 31 st .
B. Review Period	30 days	60 days	60 days
C. Effective Date	January 1 st	May 1 st	<u>JSOP</u> - May 1 st <u>FSOP</u> – June 1 st .
D. Monthly Allocations of Target Revenues	Initial allocation will be based on the approved 2009 rate case sales MWH forecast. Post test year allocations will be based on the most current sales forecast available.	No position stated in January 30, 2009 proposal.	Initial monthly allocation will be based on the 2009 approved MWH forecast in the pending rate case. Monthly allocations will be revised based on subsequent test year mWh forecasts.
E. Recovery of Authorized Base Revenue Adjustment	Recovery by the establishment of separate kwh rates for residential and commercial/industrial customers separately.	Rates should be determined by using kwh billing determinants. RAM formula-driven revenue changes to be allocated to rate super-classes using the percentage distribution of revenue changes from the Companies' most recent rate case.	Recovery by the establishment of separate RBA Adjustment rates per kwh for two classes; all residential and all commercial/industrial customers.

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SUMMARY OF DECOUPLING PROPOSAL AGREEMENT

F. Period of Implementation of Rate Change	<p>Decoupling of revenues from sales will begin with the establishment of the RBA with the issuance of interim orders in the Companies' 2009 rate cases.</p> <p>For the post test years, the RBA Adjustment rate changes will be in effect for 12 months – January 1st through December 31st – to recover the RBA balance from the preceding year and the RAM for the post test year.</p>	<p>Decoupling of revenues from sales will begin with the establishment of the RBA with the issuance of interim orders in the Companies' 2009 rate cases.</p> <p>For the post test years, RBA Adjustment rate changes will be in effect for 8 months, from May 1st through December 31st for recovery of the preceding year's RBA EOY balances, and for 12 months, May 1st through April 30th, for the recovery of incremental revenues derived from the RAM calculation.</p>	<p><u>JSOP - Decoupling of revenues from sales will begin with the establishment of the RBA with the issuance of interim orders in the Companies' 2009 rate cases.</u></p> <p>For the post test years, the revised RBA Adjustment rates will be effective on May 1st through April 30th of the following year.</p> <p><u>FSOP - Decoupling of revenues from sales will begin with the establishment of the RBA with the issuance of interim orders in HECO's 2009 rate case and MECO's and HELCO's 2009 or 2010 rate cases.</u></p> <p><u>For the post test years, the revised RBA Adjustment rates will be effective on June 1st through May 31st of the following year.</u></p>
G. Rate Case Cycle	<p>Three years.</p> <p>For the initial cycle, in order to get the Companies on a staggered year filing schedule, the next rate cases will be for the following test years: HECO-2011, MECO or HELCO-2012, MECO or HELCO-2013. However, depending on circumstances, Companies may file rate cases out of cycle.</p>	<p>Agrees with HECO proposal on the staggered cycle and believes it is appropriate to establish a filing schedule guideline. Also agrees that "all parties reserve the right to initiate formal rate proceedings to replace and terminate RAM at any time on a schedule other than as planned."</p>	<p>Three year rate case cycle after initial cycle.</p> <p>For the initial cycle, rate cases will be filed for the following test years: HECO-2011, MECO or HELCO-2012, MECO or HELCO-2013. However, depending on circumstances, Companies and other parties may file rate proceedings to replace and terminate RAM at any time on a schedule other than as planned.</p>

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EXHIBIT C
SUMMARY OF DECOUPLING PROPOSAL AGREEMENT

II. Revenue Balancing Account (RBA) Issues

ITEM	HECO COMPANIES' PROPOSAL	CONSUMER ADVOCATE'S PROPOSAL	AGREEMENT
A. Revenues Reflected in RBA	Exclude revenues that are separately recovered and reconciled for ECAC, Purchased Power Adjustment, CEIS/DSM/IRP surcharge or Pension/OPEB mechanisms.	Agree with HECO proposal.	<p><u>JSOP</u> - Target revenue is the Authorized Base Revenue approved in an interim or final decision and order in a rate case plus or minus any RAM Revenue Adjustment calculated and approved under the RAM provision, excluding revenue taxes. Target revenue will exclude revenue for fuel and purchased power expenses recovered either in base rates or in a purchased power adjustment clause and all revenue being separately tracked or recovered through any other surcharge or rate tracking mechanism.</p> <p><u>FSOP</u> - Target revenue is the Authorized Base Revenue for each of the HECO Companies approved in an interim or final decision and order in a rate case plus or minus any RAM Revenue Adjustment calculated and approved under the RAM provision, excluding revenue taxes, and less any refunds due to the Earnings Sharing Mechanism (as described in the illustrative Rate Adjustment Mechanism tariff). Target revenue will exclude revenue for fuel and purchased power expenses recovered either in base rates or in a purchased power adjustment clause and all revenue being separately tracked or recovered through any other surcharge or rate tracking mechanism.</p>
B. Revenue Taxes	Excluded from targeted and actual revenues.	Agree with HECO proposal.	Included in developing RAM Revenue Adjustment for the RAM period. Excluded from target and recorded adjusted revenues for RBA tracking purposes.
C. Interest Rate on Balances in RBA	Same as Rate of Return on Rate Base (RORB) – ECAC and IRP surcharges use the RORB for the estimation of interest.	6% - same as that given on customer deposits and noted in tariff.	6% annual simple interest rate (i.e., will apply one-twelfth of 6% per month). Interest will be restated for any Commission ordered changes to RAM Revenue Adjustments.

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EXHIBIT C
SUMMARY OF DECOUPLING PROPOSAL AGREEMENT

III. Revenue Adjustment Mechanism (RAM) – O&M Expenses

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ITEM	HECO COMPANIES' PROPOSAL	CONSUMER ADVOCATE'S POSITION	AGREEMENT
A. Labor Expense Escalators	<p>Three Global Insight indices: 1) Generation, Transmission & Distribution workers; 2) Utility Service workers; and 3) Managers & Administrators. These indices are applied to the Companies' specific costs; no additional data manipulation is required since the indices align with the presentation and formatting of the Companies' costs provided in rate case filings; 3rd party forecast so little chance of "gaming".</p> <p>The indices from the forecast issued immediately prior to the filing of the RAM tariff will be used.</p>	<p>The Union contract wage escalation rate applied to both bargaining unit and non-bargaining unit wages and salaries, reduced by the proposed 0.76% productivity factor.</p> <p>For post test years that are not covered by the Union contract, the agreed-upon escalation rate for the last year of the Union contract will be used.</p>	<p>The Union contract wage escalation rate applied to both bargaining unit and non-bargaining unit wages and salaries, reduced by a 0.76% productivity factor.</p> <p>For post test years that are not covered by the Union contract, the last year's wage escalation rate agreed to by the Union and Companies will be used</p> <p><u>FSOP – Illustrative example provided as Attachment 1,</u></p>
B. NonLabor Expense Escalators	<p>The Companies' estimates of nonlabor expense escalation in the post test years are based on six Global Insight material and services' indices for: 1) Steam Production; 2)Transmission Plant; 3)Distribution Plant; 4)</p>	<p>GDPPI forecast issued by the Blue Chip Economic Indicators forecast service, reduced by the proposed 0.76% productivity factor.</p>	<p><u>JSOP - The Blue Chip Economic Indicators Consensus forecast of GDPPI issued in January (immediately prior to the filing of the RAM tariff) will be used. No productivity factor will be applied.</u></p> <p><u>FSOP - The Blue Chip Economic Indicators Consensus forecast of GDPPI issued in February of the year of the RAM filing will be used. No productivity factor will be applied.</u></p>

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	<p>Customer Accounts; 5)Customer Service & Information; 6)Administrative & General. These indices are applied to the Companies specific costs; no additional data manipulation is required since the indices align with the presentation and formatting of the Companies' costs with what is already provided in rate case filings; and is a 3rd party forecast so there is little chance of "gaming".</p> <p>The indices from the forecast issued immediately prior to the filing of the RAM tariff will be used for the calculation of the RAM associated with nonlabor expenses.</p>		<p><u>Illustrative example provided as Attachment 1.</u></p>
C. True-Up of Escalators	<p>There should be no "true-up" in the sense of having a retroactive refund/recovery of the prior year's RAM revenues. Because Global Insight will reflect the actual index as time moves forward, for the 2nd & 3rd post test years, by aggregating all the prior indices from the test year forward, there is a self-correcting true-up.</p>	No position.	No true-up.

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IV. Revenue Adjustment Mechanism (RAM) – Other Expenses

ITEM	HECO COMPANIES' PROPOSAL	CONSUMER ADVOCATE'S POSITION	AGREEMENT
A. Depreciation and Amortization Expenses	Estimated to grow at same rate as estimated rate base, i.e., trended rate base + specific significant projects' depreciation costs.	Based on Commission-approved accrual rates to the actual recorded Plant in Service balances at end of the preceding year.	Based on Commission-approved accrual rates applied to the actual recorded Plant in Service balances at end of the preceding year. (Note: Part of Consumer Advocate's RAM for rate base methodology. See item V.A. below)
<u>B. Interest on Customer Deposits</u>	<u>Should be treated like other nonlabor expenses, i.e., escalated by GDPPI for RAM calculation purposes.</u>	<u>No escalator should be applied.</u>	<u>FSOP – No escalator will be applied to the approved test year amount.</u>

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V. Revenue Adjustment Mechanism – Rate Base

ITEM	HECO COMPANIES' PROPOSAL	CONSUMER ADVOCATE'S PROPOSAL	AGREEMENT
A. Methodology	Trended Rate Base with an overlay of "significant projects" impacts.	Rate base for major elements reflect an average test year, including actual balances from prior year; plant additions comprised of baseline (5-year historical average) and major projects scheduled to be completed in first 6 months of RAM year, accumulated depreciation includes annual depreciation on prior year-end actual plant in service balance, estimated ADIT, and estimated incremental CIAC and related depreciation impacts.	<p><u>JSOP</u> - The parties agree to the Consumer Advocate's methodology as described in Exhibit B of the Joint Proposal. The 6-month period for major project completion has been extended to 9-months. The calculation of average rate base will include actual year-end balances for the preceding calendar year.</p> <p><u>FSOP – Illustrative example of calculation provided in Attachment 2,</u></p>
B. Beginning Basis	Approved 2009 Rate Bases.	Prior Year Actual recorded balances for the Plant, Depreciation/Deferred Tax Reserve and CIAC elements of Rate Base	<p><u>JSOP</u> - Approved 2009 test year rate bases held constant except for the components of: 1) Plant in Service; 2) CIAC, 3) Accumulated Depreciation; and 4) Accumulated Deferred Income Tax Reserve which will be based on the prior year's actual end-of-year balances as described in item V.</p> <p><u>FSOP - Approved HECO 2009 test year rate base and MECO and HELCO 2009 or 2010 test year rate bases held constant except for the components of: 1) Plant in Service; 2) CIAC; 3) Accumulated Depreciation; and 4) Accumulated Deferred Income Tax Reserve which will be based on the prior year's actual end-of-year balances as described in item V.</u></p>

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C. Baseline Projection	Trended rate base, based on linear regression of 12 years of historical data, with significant projects removed.	Historical 5 year average of plant additions (without major projects) and CIAC (associated with baseline plant additions).	The parties agree to the Consumer Advocate's methodology as described in Exhibit B of the Joint Proposal.
D. Significant/Major Projects	Defined as projects (including software development projects) that are approved by the Commission that are >\$20M for HECO & >\$10M for MECO & HELCO. Project costs are limited to last authorized + 10%. Would be reflected at full amount when put into service.	Major projects are defined as CIP projects that are >\$2.5M and are included in the RAM calculation if they are expected to close to the Plant in Service account in the first half of the RAM year. Inclusion of major CIP projects for RAM purposes does not foreclose any future review or evaluation of the reasonableness of the final cost of an individual project in future rate case proceedings and subsequent adjustments to the RBA to restate authorized revenue levels.	Major projects are defined as CIP projects that are >\$2.5M and are scheduled to be placed into service in the first nine months of the RAM period and recorded as Plant in Service. Major projects do not include software development projects. Major projects' costs, for the purposes of developing the RAM Revenue Adjustment will be limited to Commission-approved amounts. If a major project is not placed into service as scheduled, the RAM adjustment associated with it (including interest) will be refunded to customers as a credit through the RBA rate adjustment calculated for the following RAM period. Because reviews of the major projects' costs by the Commission, as actually incurred, may not occur until the rate case after the RAM revenue for the project is collected by the Companies, Authorized Base Revenues (including interest) associated with these projects would be subject to refund to the extent the Commission disallows any of the project's cost.
E. Accumulated Depreciation and Accumulated Deferred Income Taxes	Companies' proposal based on total rate base with no identification of specific components.	Since this method uses the prior year-end recorded plant-in-service balances, , depreciation expense can be calculated (based on the preceding EOY plant-in-service balance and approved depreciation	The parties agree to the Consumer Advocate's methodology as described in Exhibit B of the Joint Proposal.

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F. RAM for the next rate case test years	<p>The Companies should still be able to file and implement the RAM for a test year, given the regulatory lag that is inherent in the rate case process.</p>	<p>rates.) Agrees that all parties may reserve the right to initiate formal rate proceedings to replace and terminate RAM at any time on a schedule other than planned. However, "the RAM revenues authorized for that year should be deemed interim and subject to refund if later deem to be excessive....No further interim rate relief or Statement of Probable Entitlement is required..."</p>	<p>The Companies and Consumer Advocate agree that parties may initiate formal rate proceedings to replace and terminate RAM at any time on a schedule other than planned.</p> <p>Implementation of the RAM should continue in a test year, with any RAM increase in Base Authorized Revenues in the test year deemed interim and subject to refund if the Commission ultimately orders lower Base Authorized Revenues for that test year.</p>
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VI. Other Issues

ITEM	HECO COMPANIES' PROPOSAL	CONSUMER ADVOCATE' PROPOSAL	AGREEMENT
A. Changes in State & Federal Tax Rates	<p>As stated in the HCEI Agreement, the RAMs will reflect changes to the State and Federal tax rates. This provision would be included in our RAM tariff.</p>	<p>To be reflected in calculations to revise the RAM for changes in tax legislation or regulation having an estimated prospective annual impact upon prior year recorded utility revenues in excess of one-half of one percent (0.5%) of such revenues.</p>	<p>Changes in tax laws or tax regulations that are estimated to impact Authorized Base Revenues by more than \$2,000,000 (HECO) or \$500,000 (HELCO and MECO) will be reflected in calculations to estimate authorized base revenues.</p>
B. Return on Equity	<p>This is an item that should be decided in the rate cases. The appropriate level of ROE</p>	<p>A "9%" ROE is the proposed ceiling before sharing begins.</p>	<p>To be decided in the Companies' rate cases.</p>

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	must be reviewed in the context of the additional risk that is being undertaken by the Companies for the HCEI initiatives.		
C. Earnings Sharing Mechanism	If an earnings sharing mechanism is required, it should have a dead band around the authorized return on equity to incent productivity or cost savings. Sharing bands should be symmetrical.	<p>a. ROE<9%, earnings retained by Companies.</p> <p>b. 9-10% ROE, 25% share credit to customers.</p> <p>c. 10-12% ROE, 50% share credit to customers.</p> <p>d. >12% ROE, 90% share credit to customers.</p>	<p>If actual achieved ROE, calculated as prescribed in Exhibit B, is:</p> <p>a. Less than the authorized ROE, all such earnings to be retained by shareholders;</p> <p>b. Between authorized ROE and ROE + next 100 basis points (one percent), 25% share credit of the revenue equivalent of such additional earnings to customers by reduction of the RBA rate adjustment;</p> <p>c. Between authorized ROE + 100 basis points and next ROE + 200 basis points (two percent), 50% share credit of the revenue equivalent of such additional earnings to customers by reduction of the RBA rate adjustment;</p> <p>d. Above authorized ROE + next 300 basis points (three percent), 90% share credit of the revenue equivalent of such additional earnings to customers by reduction of the RBA rate adjustment.</p>
D. RBA and RAM Continuation	No stated position.	The HECO 2011 rate case to serve as forum for any HECO-proposed extension or modification of the RAM, with the HECO Companies bearing the burden of proof regarding the potential continuation of RAM after the second round of base rate cases.	The parties agree that the RBA and RAM provisions will be subject to review and continuation, termination or modification in the utility's next base rate proceeding. The provisions will sunset when new base rates authorized in the next general rate case become effective, unless the Commission approves the continuation of the provisions (with or without modification).
E. ECAC Heat Rate	<u>The HECO Companies believe that the fixed heat rate</u>	<u>In recognition of the other parties' positions on this</u>	<u>Conceptually, deadbands around the Companies' authorized heat rates for each fuel type are appropriate with the ECAC</u>

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	<p><u>should still be maintained. However, with Commission approval in the instant proceeding, the Companies are willing to implement a conservative deadband of XX btu/kwh sales above and below the HECO heat rate(s) as most recently approved by the Commission for HECO,</u></p>	<p><u>issue, the Consumer Advocate is willing to consider deadbands (above and below) the Companies' heat rates by fuel types as authorized by the Commission.</u></p>	<p><u>operating as a full-cost pass-through when actual system heat rates are between the upper and lower deadband bounds. If the actual heat rates are above the deadband bound, the utility would not be able to recover any expenses and if the heat rates are lower than the lower deadband bound, the utility will be allowed to keep any expenses saved, resulting from the lower heat rate. A deadband of +/- 50 btu per kWh is proposed for HECO (based on an extrapolation of data provided in HECO's 2009 rate case) to be placed into effect with the issuance of an Order by the Commission in the instant proceeding, assuming that the Commission has issued its decision in HECO's 2009 rate case. For MECO and HELCO, the Companies will perform studies in an effort to quantify appropriate deadbands for each company due to the impacts of sales reductions and integrating renewables onto the MECO and HELCO grids.</u></p>	<p>Deleted: 50</p> <p>Deleted: system</p> <p>Deleted: (as</p> <p>Deleted: in</p> <p>Deleted: 's 2009 test year rate case) with Commission approval in the instant proceeding. The Companies are still in the process of analyzing and developing proposals for the MECO and HELCO deadbands.</p>
F. HCEI Status Report	<p><u>The Companies will provide a status report on certain HCEI initiatives (e.g., New Net Energy Metering (MW); New Net Energy Metering (No. of new installations); New Renewable Energy with approval and establishment of Feed-in Tariff (MW); RPS Goals achieved) as part of their next rate case filings.</u></p>	<p><u>The Consumer Advocate supports a thorough review of HECO's performance relative to its commitments in the HCEI Agreement as a condition of any continuation or modification of decoupling tariffs RBA and RAM, noting that the RAM is explicitly subject to review and continuation, termination or modification in the utility's next base rate case proceeding, upon a showing by the</u></p>	<p><u>The Consumer Advocate and Companies agree with the draft RAM tariff revision which states that the Companies will provide the HCEI status report as part of their base rate case filings that take place after the initial establishment and implementation of the RBA and RAM decoupling processes.</u></p>	<p>Deleted: n</p> <p>Deleted: annual</p> <p>Deleted: for the prior year</p> <p>Deleted: its annual RBA and RAM filing.</p>

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		<u>utility and finding</u> <u>by the Commission</u> <u>that continuation or</u> <u>modification is</u> <u>appropriate.</u>	
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Hawaiian Electric Company, Inc.											
FSOP O&M EXPENSES RAM ONLY - NO CHANGE IN RATE BASE)											
Results of Operations											
Based on 2009 Test Year											
(\$ Thousands)											
				Revenue							
				Requirements							
				to Produce							
				8.81%							
				Return on	2009	2009	2009		2010	2010	2010
				Average	Nominal	BAU	1 +	BAU * Index	Nominal		TOTAL
				Rate Base	Amount (N.1)	Amount	Index	Notes	Amount	Amount (N.1)	RAM
											Amount
											Notes
Electric Sales Revenue	1,861,751	99,913	1,961,664						0		1,966,996 N.11
Other Operating Revenue	4,487	122	4,609		4,609	0			0	4,609	4,609
Gain on Sale of Land	615		615		615	0	100.0%	N.2	0	615	615
TOTAL OPERATING REVENUES	1,866,853	100,035	1,966,888		5,224	0			0		1,972,220
Fuel	816,654		816,654		816,654	0	100.0%	N.2	0	816,654	816,654
Purchased Power	477,055		477,055		477,055	0	100.0%	N.2	0	477,055	477,055
Production	82,423		82,423								
Production Labor *			33,819		33,819	103.7%	N.3a		35,083		35,083
Production NonLabor *			48,604		0	48,604	101.2%	N.3b	49,188	0	49,188
Transmission	13,930		13,930								
Transmission Labor *			4,951		4,951	103.7%	N.3a		5,137		5,137
Transmission NonLabor *			8,979		8,979	101.2%	N.3b		9,086		9,086
Distribution	30,515		30,515								
Distribution Labor *			12,474		12,474	103.7%	N.3a		12,941		12,941
Distribution NonLabor *			18,041		0	18,041	101.2%	N.3b	18,257	0	18,257
Customer Accounts	16,297		16,297								
Customer Accounts Labor *			7,729		7,729	103.7%	N.3a		8,018		8,018
Customer Accounts NonLabor *			8,568		0	8,568	101.2%	N.3b	8,671	0	8,671
Allowance for Uncoll. Accounts	1,339	72	1,411		1,411	101.2%	N.3b		1,428		1,428
Customer Service	6,997		6,997								
Customer Service Labor *			964		964	103.7%	N.3a		1,000		1,000
Customer Service NonLabor *			6,033		6,033	101.2%	N.3b		6,105		6,105
Administration & General	77,863		77,863								0
Admin & Gen Labor *			21,199		21,199	103.7%	N.3a		21,992		21,992
Admin & Gen NonLabor *			56,664		19,098	37,566	101.2%	N.3b	38,017	19,098	57,115
Operation and Maintenance	1,523,073	72	1,523,145		1,312,807	210,338			214,923		1,527,730
Depreciation & Amortization	82,966		82,966		na	na			na		82,966 N.12
Amortization of State ITC	(1,453)		(1,453)		na	-1,453	100.0%	N.2	-1,453		-1,453
Taxes Other Than Income	172,913	8,879	181,792		na	na			na		182,539 N.14
Interest on Customer Deposits	479		479		479	100.0%	N.2		479		479
Income Taxes	20,251	35,441	55,692		na	na			na		55,692
TOTAL OPERATING EXPENSES	1,798,229	44,392	1,842,621		1,312,807	209,364			213,949		1,847,953
OPERATING INCOME	68,624	55,643	124,267		na	na			na		124,267 N.10
									0		0
AVERAGE RATE BASE	1,411,417	(900)	1,410,517		na	na			na		1,410,517 N.9
RATE OF RETURN ON AVERAGE											
RATE BASE	4.86%		8.81%								8.81%
REVENUE ADJUSTMENT (DIFFERENCE IN TOTAL OPERATING REVENUES)											\$5,332
* Allocated Labor and Nonlabor of total O&M expenses based on 2009 Budget as provided in HECO-WP-101(A) in the 2009 Rate Case											
N.1 See "Nominal" Tab in Worksheet											

N.2	No escalator used.
N.3a	Based on 2010 Union Contract wage rate increase (4.5%) less productivity factor of 0.76%, for a net of 3.7%.
N.3b	Based on Blue Chip Economic Indicators, Consensus GDP Price Index, 4/10/09, of 1.2%
N.9	No change in rate base
N.10	Based on 2009 TY RORB = 8.81%
N.11	(Total Operating Expenses less revenue taxes+Operating Income)/(1-PUC & PSC & Franchise Tax rates-Uncoll Factor) less Other Operating revenue & Gain on Sale
N.12	Index based on growth rate of average rate base
N.13	Based on growth of O&M Expenses and Operating Income
N.14	See "Taxes" Tab in Worksheet
Total Labor in Test Year	
2009	81,136.4
2010	84,170.9 103.74%
Total NonLabor in Test Year (excluding Fuel & Purchase Power expense)	
2009	146,888.6
2010	148,422.1 101.04%
Total O&M (excluding Fuel & Purchase Power expense)	
2009	228,025.0
2010	232,593.0 102.00%
Total Operating Income	
2009	124,267.0
2010	124,266.5 100.00%
Total O&M Expenses (excluding Fuel & Purchase Power expense) & Operating Income	
2009	352,292.0
2010	356,859.5 101.30%

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APRIL 10, 2009 ■ BLUE CHIP ECONOMIC INDICATORS ■ 3

2010 Real GDP Consensus Forecast Slipped To 1.8%

APRIL 2009 FORECAST FOR 2010 SOURCE	Percent Change 2010 From 2009 (Year-Over-Year)									Average For 2010			Total Units 2010 - 2009		2010-09 Net Exports (2000 \$)
	Real GDP (Chained) (2000 \$)	GDP Price Index	Nominal GDP (Cur. \$)	Consumer Price Index	Indust. Prod. (Total)	Dis. Pers. Income (2000 \$)	Personal Cons. Exp. (2000 \$)	Non-Res. Fix. Inv. (2000 \$)	Corp. Profits (Cur. \$)	Treas. Bills 3-yr.	Treas. Notes 10-yr.	Unempl. Rate (Civ.)	Housing Starts (Mil.)	Auto & Light Truck Sales (Mil.)	
ClearView Economics*	3.4 H	2.6	6.0 H	3.3 H	4.7	3.6	2.2	2.0	13.1	2.0	3.9	8.9	0.97	12.4	-431.0
FedEx Corporation	3.1	2.3	5.4	2.7	5.1	2.5	2.0	2.7	4.5	1.7	4.3	9.0	0.88	14.7	-487.5
Comerica Bank*	3.0	1.3	4.3	1.2	7.1 H	3.7	2.8	2.4	12.4	1.2	3.4	9.0	0.98	13.3	-455.0
Naroff Economic Advisors*	2.8	2.0	4.8	2.5	2.5	2.9	3.1 H	-0.4	8.5	2.2 H	4.5	8.0 L	0.75	15.8 H	-415.0
RBS Greenwich Capital	2.5	2.2	4.8	2.2	1.4	2.1	1.7	1.1	12.0	1.5	4.6	8.5	1.10	12.5	-337.0
Ford Motor Company*	2.5	0.8	3.3	1.5	2.0	2.3	2.5	-8.7	na	0.9	3.6	10.6	0.64	na	-242.3 H
Woodley Park Research	2.4	1.2	3.6	1.7	1.2	0.9	2.6	4.3 H	10.8	0.7	2.9	9.3	0.87	11.6	-506.6
Moody's Capital Markets	2.4	1.6	4.1	2.2	2.7	2.1	2.1	0.9	10.0	1.5	3.3	9.1	0.67	12.5	-380.0
Action Economics	2.3	2.0	4.4	2.0	3.5	2.9	3.6	-4.1	7.6	1.0	4.3	9.5	0.72	12.5	-379.7
Barclays Capital	2.3	1.6	3.9	1.6	2.7	1.7	1.6	-3.3	6.0	0.2 L	4.3	9.0	0.77	12.0	-431.8
Societe Generale	2.3	1.1	3.4	1.3	6.8	5.1 H	2.7	-1.7	14.6	0.5	3.7	8.7	0.96	14.0	-473.0
UBS	2.2	1.6	3.8	1.5	1.0	1.5	2.0	-3.2	na	1.4	3.7	8.6	0.72	na	-436.0
Inform - Univ. of Maryland	2.1	2.8	4.9	3.2	2.3	1.5	1.3	-1.4	10.8	1.4	3.8	8.8	0.62	13.1	-345.0
Wayne Hummer Investments LLC*	2.1	1.4	3.5	2.0	2.2	2.2	1.8	1.8	9.8	1.2	3.7	8.7	0.95	13.2	-375.0
DuPont**	2.1	1.2	3.3	2.0	4.6	2.5	1.9	-0.1	4.0	1.5	4.3	9.4	0.95	13.9	-360.0
National Assn. of Home Builders	2.1	0.5	2.6	0.4	2.3	1.5	1.5	-3.0	6.5	0.4	2.9	9.0	0.65	11.8	-352.0
Macroeconomic Advisers, LLC**	2.1	0.3	2.5	0.7	1.4	1.8	1.7	-2.9	4.9	0.3	3.1	9.4	1.00	11.9	-412.7
Russell Investments	2.0	1.8	3.9	0.7	2.3	1.7	1.9	-6.0	0.0	0.7	3.5	9.8	0.56	10.5	-327.0
Kelner Economic Advisers	2.0	1.5	3.5	2.0	1.5	2.2	1.8	-4.0	5.0	1.2	3.9	9.0	0.79	11.7	-350.0
Econoclast	2.0	1.0	3.0	1.2	0.7	1.2	1.3	-1.9	6.2	0.5	3.5	9.2	0.75	12.5	-300.0
Nomura Securities	2.0	0.8	3.0	1.3	2.3	2.3	2.3	-7.4	6.1	0.7	3.6	9.4	0.86	13.9	-383.3
Turning Points (Micrometrics)	1.9	1.4	3.3	2.6	3.2	2.4	2.3	3.6	12.5	0.9	3.6	8.9	0.62	9.5 L	-394.5
Fannie Mae	1.9	1.0	2.9	2.0	1.5	1.6	1.5	-3.4	2.0	0.3	3.2	9.6	0.70	11.6	-386.2
J P Morgan Chase	1.9	0.8	2.7	0.9	3.0	1.2	1.7	-1.3	5.8	na	na	9.3	0.63	11.3	-446.2
Soleil Securities Group*	1.9	0.6	2.6	1.1	1.5	1.6	1.8	-3.4	1.5	0.3	3.2	9.5	0.70	11.6	-386.0
Mastrow Financial	1.9	0.4	2.3	0.9	2.1	1.5	1.7	-4.1	5.0	0.4	3.1	9.3	0.80	12.0	-359.9
Bank of America-Merrill Lynch	1.9	0.2	2.1	1.1	0.1	1.9	1.1	-0.5	na	0.4	2.2 L	10.2	0.55 L	10.2	-333.2
General Motors Corporation	1.9	-0.2 L	1.8	0.1 L	2.4	1.7	1.9	-4.1	6.5	0.5	2.9	9.9	0.73	na	-342.0
Morgan Stanley	1.8	1.4	3.2	2.4	1.7	2.5	2.1	-3.9	10.1	1.0	4.7 H	9.8	0.72	11.4	-417.4
Daiwa Securities America	1.8	1.1	3.0	1.2	1.4	2.5	1.1	-3.8	2.0	1.3	4.1	9.0	0.63	12.3	-469.0
Standard & Poor's Corp.*	1.8	1.0	2.8	1.7	0.7	0.2	2.2	3.0	20.2	0.7	3.0	9.7	0.84	11.2	-454.3
Bank of Tokyo-Mitsubishi UFJ	1.8	0.8	2.6	1.7	1.4	0.5	2.3	1.1	8.3	0.9	3.0	9.7	0.82	12.2	-463.3
U M Economics, Inc.	1.7	1.7	3.4	2.0	3.8	1.4	1.9	-4.4	7.0	0.8	3.5	10.3	0.90	12.2	-385.0
BMO Capital Markets	1.7	1.2	3.0	1.7	1.3	1.0	0.0 L	-3.4	0.8	0.7	3.1	9.6	0.75	13.4	-348.0
Moody's Economy.com	1.7	0.3	1.8	1.9	2.6	0.8	1.0	-0.2	-0.1 L	1.0	4.3	9.7	0.79	13.1	-386.6
Wells Capital Management	1.6	2.3	3.9	1.9	1.9	3.1	2.7	-3.5	3.9	1.7	3.9	9.0	0.60	10.8	-553.0 L
U.S. Chamber of Commerce	1.6	1.8	3.4	1.8	1.4	2.1	1.8	1.9	4.5	1.2	3.1	9.5	0.75	na	-393.7
Conference Board*	1.6	0.9	2.5	1.4	0.5	0.2	1.6	-1.6	10.2	0.2 L	3.5	10.1	0.81	11.6	-418.5
Eaton Corporation	1.5	1.3	2.8	2.4	2.3	2.3	1.9	2.0	2.7	1.0	3.3	9.5	0.87	12.2	-389.0
MacroFin Analytics	1.5	1.0	2.6	0.8	0.2	1.2	1.2	2.4	1.8	0.9	3.3	9.8	0.65	10.4	-371.3
National Assn. of Realtors	1.5	0.4	1.1	1.2	1.9	1.6	2.0	-8.9	1.5	1.2	3.2	9.7	0.67	13.8	-453.0
IHS Global Insight	1.4	1.0	2.4	1.6	-0.3	0.2	1.7	-0.1	10.3	0.6	2.9	10.2	0.85	11.3	-415.4
Goldman Sachs & Co.	1.2	0.7	1.9	0.4	-2.8 L	2.2	1.0	-8.5	0.1	0.5	3.3	9.9	0.73	10.9	-383.9
Argus Research Corp.	1.1	3.2 H	4.3	3.0	2.0	2.0	0.5	2.8	5.5	0.5	3.4	8.7	0.73	12.1	-387.7
UCLA Business Forecasting Proj.*	1.1	0.9	2.0	1.8	-0.9	-0.5	1.5	-1.2	20.8 H	0.6	3.3	10.4	0.79	11.3	-432.9
J.W. Coons Advisors	1.0	0.9	1.9	1.3	1.1	0.0	1.1	-4.6	3.4	1.7	3.6	8.6	1.15 H	12.0	-322.0
RDQ Economics	0.8	2.5	3.4	2.4	0.9	1.4	0.6	-4.9	0.9	0.5	4.7 H	9.3	0.70	10.5	-398.0
Wachovia	0.7	1.0	1.7	1.3	1.7	1.9	1.1	-11.3 L	4.0	0.9	3.6	10.8	0.74	11.3	-472.4
Economist Intelligence Unit	0.6	0.2	0.9	0.7	-0.1	2.6	0.5	-1.2	na	0.7	2.6	10.1	0.70	11.0	-415.0
Georgia State University*	-0.2 L	0.8	0.6 L	1.5	-2.7	-1.2 L	0.2	-7.4	18.0	0.5	2.9	10.9 H	0.72	11.0	-370.9
2010 Consensus: April Avg.	1.8	1.2	3.1	1.6	1.9	1.8	1.7	-2.0	7.0	0.9	3.5	9.4	0.78	12.0	-398.6
Top 10 Avg.	2.7	2.4	4.6	2.7	4.4	3.1	2.5	2.7	14.5	1.7	4.4	10.4	0.98	13.8	-324.7
Bottom 10 Avg.	0.9	0.3	1.6	0.7	-0.5	0.2	0.7	-7.2	1.1	0.3	2.8	8.6	0.62	10.6	-478.7
March Avg.	1.9	1.2	3.2	1.6	2.0	2.0	1.8	-2.2	6.0	1.0	3.7	9.1	0.79	12.3	-379.5
Number Of Forecasts Changed From A Month Ago:															
Down	22	9	22	13	19	21	19	20	12	20	18	2	17	14	30
Same	19	23	15	21	15	18	19	15	10	24	20	15	19	22	9
Up	9	18	13	16	16	11	12	15	24	4	10	33	14	10	11
April Median	1.9	1.1	3.0	1.7	1.8	1.8	1.8	-1.8	6.1	0.9	3.5	9.4	0.75	12.0	-388.4
April Diffusion Index	37 %	59 %	41 %	53 %	47 %	40 %	43 %	45 %	63 %	33 %	42 %	81 %	47 %	46 %	31 %

*Former winner of annual Lawrence R. Klein Award for Blue Chip Forecast Accuracy. **Denotes two-time winner. ***Denotes three-time winner.
BASIC DATA SOURCES: ¹Gross Domestic Product (GDP), chained 2000\$, National Income and Product Accounts (NIPA), Bureau of Economic Analysis (BEA); ²GDP Chained Price Index (CPI), BEA; ³GDP, current dollars, BEA; ⁴Consumer Price Index-All Urban Consumers, Bureau of Labor Statistics (BLS); ⁵Total Industrial Production, Federal Reserve Bank of New York; ⁶Disposable Personal Income, 2000\$, BEA; ⁷Personal Consumption Expenditures, 2000\$, BEA; ⁸Non-residential Fixed Investment, 2000\$, BEA; ⁹Corporate Profits Before Taxes, current dollars, with inventory valuation and capital consumption adjustments, NIPA, BEA; ¹⁰Treasury Bill Rate, 3-month, secondary market, bank discount basis, FRB; ¹¹Treasury note yield, 10-year, constant maturity basis, FRB; ¹²Unemployment Rate, civilian work force, BLS; ¹³Housing Starts, Bureau of Census; ¹⁴Total U.S. Auto and Light Truck Sales (includes imports), BEA; ¹⁵Net Exports of Goods and Services, 2000\$, NIPA, BEA.

Notice: CA positions regarding decoupling/RAM have not been finalized - this schedule for illustrative purposes only.

REVISED - 3/3/09

Hawaiian Electric Company, Inc.
Decoupling - Consumer Advocate Rate Base Illustration
(RATE BASE CHANGE)
Based on 2009 Test Year
(\$000's)

HECO Rate Base -- Full CIP1 Annualized			CA 2010	Estimated
	12/31/08	2009 Changes	Changes (b)	12/31/10
1 Net Plant In Service				
2 <u>Plant in Service:</u>				
3 Starting Balance	\$ 2,615,937			\$ 2,615,937
4 Full Cost of CIP1				155,300
5 Additions (excl CIP1)		\$ 133,034	\$ 106,798	239,832
6 Retirements		(16,063)		(16,063)
7 Ending Balance	2,615,937	116,971	106,798	2,995,006
8 <u>Accumulated Depreciation:</u>				
9 Starting Balance	(1,242,678)			(1,242,678)
10 Cost of Removal		6,770		6,770
11 Salvage		(277)		(277)
12 Depreciation Accrual		(92,979)	(78,432)	(171,411)
13 Retirements		16,063		16,063
14 Ending Balance	(1,242,678)	(70,423)	(78,432)	(1,391,533)
15 Net Plant in Service	1,373,259	46,548	28,366	1,603,473
16 <u>Deductions</u>				
17 Unamortized CIAC	(180,184)	(3,143)	(10,000)	(193,327)
18 Accumulated Def Income Taxes	(130,002)	(3,098)	(1,555)	(134,655)
19 Total	(310,186)	(6,241)	(11,555)	(327,982)
20 Net Rate Base (before working cash)	\$ 1,063,073	\$ 40,307	\$ 16,810	\$ 1,275,490
21 Average Rate Base		\$ 1,160,877	\$ 1,267,085	
22 <u>Average Change in 2010 Rate Base:</u>				
23 Baseline Additions (b)	\$ 90,000			45,000
24 Major CIP Project Additions (b)	16,798			8,399
25 Accumulated Depreciation (b)	(78,432)			(39,216)
26 Net Plant Line 20..25				1,272,863
27 ADIT - Baseline (b)	(1,310)			(655)
28 ADIT - Major CIP (b)	(245)			(123)
29 CIAC - Baseline (b)	(10,000)			(5,000)
30 CIAC - Major CIP (b)	-			-
31 Total Change in Rate Base Line 26..30				\$ 1,267,085
32 Effective Pre-Tax Return (b)		13.58%	13.58%	
33 Gross Return on Rate Base Line 21 x 32		\$ 157,632	\$ 172,053	\$ 14,422
34 <u>Income Statement Effects:</u>				
35 Less: CIAC Amortization (b)				(1,000)
36 Add: Annualized Prior Year Depreciat (b)				2,359
37 Revenue Requirement on Plant Additions				\$ 15,780

(a) Assumed 2009 "actual" year-end rate base.

(b) Source: Original Consumer Advocate Decoupling Illustration distributed 2/27/09.

Hawaiian Electric Company Inc.
Decoupling - Docket No. 2008-0274
Estimated RAM for Year 2010 - Illustrative Example Only

In Thousands

1 O&M Expense Revenue Adjustment	\$5,332
2 Rate Base Revenue Adjustment	<u>\$15,780</u>
Total Revenue Adjustment	<u>\$21,112</u>

In Cents

Rate Per KWH in Cents- Residential	0.3262¢
Rate Per KWH in Cents- Non-Residential	0.2662¢

Rate Adjustment Mechanism ("RAM")

The Rate Adjustment Mechanism will re-determine the individual utility's annual authorized base revenues each year between rate cases. As described in the Consumer Advocate's and HECO Companies' Joint Proposal filed on March 30, 2009, the annual base revenue (excluding tracked fuel, purchased power, pensions and rider recoveries) that is authorized by the Commission for each utility, as reflected in its most recent rate case Decision and Order, is used as the basis for the calculation of the amount of the incremental revenue adjustment for the post-test year. This base revenue is updated pursuant to RAM formulae for changes in designated O&M expenses, return on incremental investment in designated rate base components, incremental depreciation and amortization expenses, and changes in costs due to changes in tax laws or regulations.

The amount by which rates should be adjusted for these RAM changes is determined in two separate calculations: one for the calculation of O&M Expenses for the post test year period and one for the calculation of the post test year rate base and the associated changes in required return on investment and depreciation/amortization, so as to yield the change in target base revenues (collectively, the RAM Revenue Adjustment) as described in Exhibit B of the Final Joint Proposal.¹ However, since the time of the Joint Proposal filing, the Consumer Advocate and the Companies have further reviewed the procedures to be used in these calculations and are proposing two minor revisions. These revisions are; 1) to not escalate interest on customer deposits, and 2) to revise certain dates used to submit filings and to determine GDPPI projections.

In general, the Companies and Consumer Advocate have agreed that labor expenses will be escalated by the general wage rate increase provided for in the currently effective union labor agreements, reduced by a productivity factor of 0.76% and non-labor expenses are to be escalated by a GDPPI forecast for the RAM year. Since the filing of the Joint Proposal, the Consumer Advocate and the Companies have determined that interest on customer deposits, should be excluded from the non-labor escalations since customer deposits, as reflected in the calculation of the rate base RAM, will remain unchanged from that most recently authorized by the Commission in the Companies' rate cases.

With respect to procedural dates, because the Consumer Advocate and the Companies have agreed to delay the RBA and RAM annual filings from February 28 to March 31 and the effective date of RAM changes from May 1 to June 1, the Blue Chip Economic Indicators consensus forecast to be used for the GDPPI projection will be the February forecast in the RAM year instead of the January forecast as originally agreed.

An illustrative example of the calculation for the O&M expenses revenue adjustment for 2010 is provided as Attachment 1 to Exhibit C and is based on the HECO Company's asserted 2009 test year revenue requirement², a 3.7% labor escalator (based on the 2010 general wage rate increase as agreed to in the union bargaining agreement of 4.5%, less 0.76% productivity factor).

¹ The Joint Proposal

² Rate Case Update, Docket No. 2008-0083, HECO T-23, Attachment 2.

Nonlabor expenses are escalated in this illustration by 1.2%, which is based on the most recently issued (April 10, 2009) Blue Chip Economic Indicators' consensus projection.

On Attachment 2 to Exhibit C, an illustrative example of the calculation for the revenue adjustment for the post test year rate base is provided. This example was provided by the Consumer Advocate to participants in the Technical Workshop held on April 20, 2009, and is based on information and data available to the Consumer Advocate at that time. A description of the methodology and data used for the calculation is provided in Exhibit B of the Final Joint Proposal. The Consumer Advocate and the Companies continue to meet and jointly review the historical data that will be used in this calculation to ensure the accuracy of the inputs into the calculation.

Using these HECO illustrative examples, the total RAM Revenue Adjustment for the post test year 2010 is \$21,112,000 and, based on the most recent 2010 sales forecast, would amount to \$0.003262 per kwh for residential usage and \$0.002662 for nonresidential usage (see Attachment 3 to Exhibit C). This would mean that a typical household on Oahu, assuming 600 kwh of usage, would experience a monthly increase of \$1.96 in its electricity bill due to the implementation of the RAM beginning in June of 2010 through May 2011.

Decoupling Docket
ECAC Position

The Energy Cost Adjustment Clause ("ECAC") contains an efficiency factor, or fixed heat rate, which serves as an incentive to the utilities to operate their generating units efficiently. However, in their preliminary statements of position, Haiku Design and Analysis ("HDA"), DBEDT, and HREA recommended that the efficiency factor be eliminated and the ECAC permit full pass through of fuel costs. HDA has provided analyses supporting advocacy of this position.

HDA made this recommendation for two reasons. First, making the ECAC a full cost pass through mechanism ensures that the utilities will more accurately recover their fixed costs through the sales decoupling mechanism as sales levels change.

Second, as more renewable energy is added to a utility's system grid, the actual system heat rate is likely to deteriorate; therefore, maintaining the fixed heat rate in the ECAC incents the utility to maintain a more efficient system to the detriment of renewable energy purchases.

In their *Initial Statement of Position on Haiku Design and Analysis' Decoupling Proposal*, filed on March 30, 2009, the HECO Companies,

"agree[d] that marginal costs may differ from average costs when sales fluctuate and agree[d] further that nearly all of the marginal costs are fuel and purchased energy costs. However, the sales decoupling mechanism included in the Joint Proposal removes all fuel and purchased energy costs that are recovered through base rates and through the ECAC from both the Commission-approved revenue requirements and from actual billed revenues. Furthermore, the quarterly ECAC reconciliations, filed in the Companies' February, May, August, and November Energy Cost Adjustment Factor ("ECAF") filings adjust ECAC revenues for any changes in fuel and purchased energy expenses due to sales fluctuations, subject to the fixed heat rate incentive (efficiency factor). Therefore, by removing the revenue that recovers fuel and purchased energy expenses from both Commission-approved revenues and actual billed revenues, the effect of sales fluctuations on marginal costs are appropriately and accurately accounted for."

In the April 20, 2009 Technical Meeting, the HECO Companies identified the reasons for keeping the fixed heat rate. First, the fixed heat rate provides an effective incentive for the utilities to maintain their generating units in order to run as efficiently as possible. Second, the fixed heat rate serves as a risk sharing mechanism, such that the utilities are at risk of not recovering all of their fuel expenses if they do not properly manage the generating units' operating parameters under their control.

Nevertheless, the HECO Companies agree with HDA that the fixed heat rate could result in the utilities recovering more or less than their fixed costs under sales decoupling, and that the fixed heat rate may incent the utilities to take less renewable energy under certain

circumstances. The system heat rate worsens because utility generators must often be taken off of economic dispatch to accommodate increased levels of renewable energy.

Therefore, at the April 20, 2009 Technical Meeting, the HECO Companies stated that, in addition to considering HDA's proposal, they would consider a deadband around the fixed sales heat rates in the ECAC that preserves an effective incentive to operate efficiently, but also reduces the disincentive to accommodate increased amounts of renewable energy.

The HECO Companies and the Consumer Advocate jointly propose that a 50 btu/kwh sales deadband be established above and below each of the fixed sales heat rates by fuel-type in HECO's ECAC. For example, if the heat rate for LSFO-fueled HECO units approved by the Commission is 11,000 btu/kwh sales, the upper deadband threshold would be 11,050 btu/kwh sales and the lower deadband threshold would be 10,950 btu/kwh sales.

If the actual fuel-type sales heat rates are between the upper and lower deadband thresholds, the ECAC would operate as a full cost pass through and HECO would recover all of its fuel costs for that fuel type. However, if HECO operated poorly (had a worse efficiency), it would not recover any expenses resulting from an actual sales heat rate above the upper threshold. If HECO operated well (had a better efficiency), it would keep any expenses saved resulting from a sales heat rate below the lower threshold.

The proposed deadband width of 50 btu/kwh sales is based on the 19 btu/kwh sales reduction in total system efficiency factors of 0.011185 mbtu/kwh in HECO's direct testimony (HECO-1039, line 3) and 0.011166 mbtu/kwh in HECO's December rate case update (Rate Case Update, HECO T-10, page 28 of 38), which reflected a 2.3% decrease in sales (Rate Case Update, HECO T-2, page 1 of 48). Based on assumptions of potential future impacts of decoupling may be equivalent to a 5% reduction in sales between rate cases and that the relationship between the change in sales and the change in efficiency factor is linear, then a deadband width of 50 btu/kwh sales above and below the test year sales heat rate is reasonable. The proposed 50 btu/kwh sales deadband represents less than 1% of the system sales heat rate for HECO. The application of the deadband in HECO's ECAC would take effect upon the issuance of a final Decision and Order by the Commission approving revenue decoupling in the instant docket based on sales heat rates as approved by the Commission in HECO's 2009 test year rate proceeding.

Once approved in the final D&O as described above, HECO's monthly ECA factor filings will be calculated assuming there is a complete pass through of fuel costs. The actual heat rates by fuel type would be averaged quarterly to coincide with the quarterly ECA reconciliations currently conducted by each company. To the extent that each of the sales heat rates by fuel type exceed the upper or be below the lower deadband thresholds, respectively, the ECAC revenues would be adjusted when the quarterly ECAC reconciliation balance is cleared as an adjustment to the ECA factor calculations.

The concept of sales heat rate deadbands by fuel type also applies to HELCO and MECO. However, more analyses will be conducted by the Companies to determine the appropriate deadband widths for each company.

**Docket No. 2008-0274
Decoupling Proceeding
HCEI Status Report**

On March 30, 2009, the Parties¹ to the decoupling docket, Docket No. 2008-0724, filed their respective initial statements of position. The State of Hawaii Department of Business, Economic Development, and Tourism ("DBEDT"), in its *Opening Statement of Position on a Decoupling Mechanism for HECO/HELCO/MECO*, raised the issue of "adjusting the target revenue requirements based on performance metrics related to the HECO Companies' commitments under the Energy Agreement." Also, the Hawaii Renewable Energy Alliance ("HREA"), in its *Initial Statement of Position*, and Blue Planet, in its *Joinder and Supplemental Opening Statement of Position* stated their support of measures to link implementation of decoupling to the pace of renewable deployment and the achievement of Energy Agreement goals.

DBEDT² and Blue Planet³ proposed performance metrics that envisioned tying decoupling revenue collection to measurement of: the number of New Net Energy Metering (MW or customers), the number of Pay-as-you-save program participants (MW or customers), the amount of New Renewable Energy purchased under the Feed-in-Tariff ("FIT") (MW or kWh), the increase in other renewable/nonfossil-based energy generation (MW or kWh), the amount of decrease in fossil oil used during the year, and the amount of increase in energy savings (kWh) resulting from energy efficiency programs and demand-side programs. Based on certain assumptions and a goal that RPS is modified to be 70% by 2030 and there is no Energy Efficiency Portfolio Standard ("EEPS"), HREA proposed two approaches to performance measurement: (1) a straight line approach based on an annual additional RPS goal of 2.75%, and (2) a Specific Projects/Activities approach.⁴

The imposition of the performance metrics as a condition of initial approval of decoupling, as recommended by DBEDT, Blue Planet, and HREA is unreasonable and unnecessary. As discussed in the technical workshop held on April 20, 2009, for instance, the Pay-as-you-save and demand-side management programs will be administered by the Public Benefits Administrator.⁵ Thus, the success of these programs will be a result of the effectiveness

¹ The Parties are: The HECO Companies (Hawaiian Electric Company, Inc., ("HECO"), Hawaii Electric Light Company, Inc. ("HELCO"), and Maui Electric Company, Ltd. ("MECO"), Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs ("Consumer Advocate"), Department of Business Economic Development & Tourism ("DBEDT"), Haiku Design and Analysis ("HDA"), Blue Planet Foundation ("Blue Planet"), Hawaii Renewable Energy Alliance ("HREA"), Hawaii Holdings, LLC, dba First Wind Hawaii ("First Wind"), and Hawaii Solar Energy Association (HSEA").

² See DBEDT's *Opening Statement of Position on a Decoupling Mechanism for HECO/HELCO/MECO*, page 7, filed on March 30, 2009 and DBEDT's response to CA/DBEDT-IR-3, filed on April 15, 2009, in the instant proceeding.

³ See Blue Planet's response to CA/BPF-IR-1, pages 1-2, filed on April 15, 2009, in the instant proceeding.

⁴ See HREA's response to CA/HREA-IR-1, filed on April 13, 2009.

⁵ Order Denying HECO Companies Amendments to SolarSaver Pilot Program, Filed on December 31, 2008, filed on April 9, 2009, in Docket No. 2006-0425. Decision and Order no. 23258, Docket no. 05-0069, filed February 13, 2007, as clarified by Order No. 23448, filed May 21, 2007.

of the Public Benefits Administrator and is largely beyond the control of the HECO Companies. Similarly, the number of new net energy metering customers achieved is dependent on customers' actions in developing their own sources of energy, which is ultimately based on their individual financial resources, future energy market conditions and willingness to undertake new technologies, factors which are also beyond the control of the HECO Companies.

The Consumer Advocate responded to the technical workshop participants that the Joint Proposal achieves balance by not only giving the Companies considerable financial stability at the inception of HCEI implementation, but the proposed RAM terms are designed to be conservative, simple, offer consumer protection, and provide "re-opener provisions". The re-opener provisions include the reconsideration of the RAM in the Companies' next round of rate cases, the need for HECO to make a showing that continuation or modification is appropriate. The Consumer Advocate noted that concerns about the customer impacts from decoupling, HECO's effectiveness in supporting and achieving the HCEI goals, performance relative to overall HCEI objectives, and impact on the Companies' achieved return on equity may all be considered. The re-opener was intended to provide a window of opportunity for the Consumer Advocate and other parties to thoroughly review all of these issues and to examine the need for continuation of decoupling and its RBA/RAM elements.

Secondly, in the October 20, 2008 Energy Agreement among the State of Hawaii, Division of Consumer Advocacy of the Department of Consumer Affairs, and the Hawaiian Electric Companies ("Energy Agreement"), the Governor's office, DBEDT, the Consumer Advocate, and the Companies agreed that the Renewable Portfolio Standard ("RPS") is an effective structure to track the Hawaiian Electric Companies' obligation to add renewable energy. On page 2 of the preamble of the Energy Agreement, the signatories state that "All [Energy Agreement] parties agree that a Renewable Portfolio Standard ("RPS") is an effective structure for the Hawaiian Electric Companies' obligation to add renewable energy. Therefore, the parties agree to seek legislative changes to the existing RPS..." The RPS Framework already includes defacto enforcement and penalty provisions which were ordered by the Commission under Hawaii's RPS law.⁶ Under the Energy Agreement, the RPS goals would be substantially increased to 25% by 2020 and 40% by 2030 while eliminating energy efficiency and conservation entirely from consideration as contributors to the RPS targets after 2014. The Legislature has passed H.B. No. 1464, H.D. 3, S.D. 2, C.D. 1, which, when signed into law by the Governor, will effectuate the change in the RPS law. Also, the Energy Agreement includes a provision that imported biofuel generation cannot account for more than 30% of the RPS target through 2015. Imposing another set of metrics is redundant, may doubly penalize the Companies for underperformance, and would require additional resource commitments by the Companies, Consumer Advocate, and Commission to respectively generate, analyze, and review any added reports to be filed by the Companies.

Thirdly, there are existing mechanisms in the Energy Agreement which are reinforced in the *Joint Proposal on Decoupling* ("*Joint Proposal*") and *Joint Final Statement of Position of the HECO Companies and the Consumer Advocate* ("*Final SOP*") to ensure that the RAM will

⁶ See the Companies' response to the NRRI Scoping Paper, Appendix 2, question 7, pages 4-5.

be reviewed so that it is “operating in the interest of the ratepayers.”⁷ These include the Commission reviewing the decoupling mechanism at any time; the Consumer Advocate and Companies may request to review the impact of the decoupling mechanism; and the Commission may unilaterally discontinue the decoupling mechanism if it finds the public interest requires such action. In addition, page 1 of Exhibit B (Rate Adjustment Mechanism Provision) as filed in the Joint Proposal also states “This mechanism is subject to review and continuation, termination or modification in the utility’s next base rate case proceeding, upon a showing by the utility and finding by the Commission that continuation or modification is appropriate”. Thus the need to continue decoupling and the RAM will be reviewed by the Commission during each of the Companies’ next rate cases which have been proposed to occur beginning in the 2011 test year and on a regular three-year cycle thereafter. At that time, there should be some actual HCEI performance to measure and HECO’s role in supporting such performance will be an issue ripe for consideration by the Commission.

Finally, tying performance metrics to the RAM is inconsistent with the purpose of the decoupling provision, as reflected in the Energy Agreement. As stated by the signatories on page 1 of the Energy Agreement, “we recognize the need to assure that Hawaii preserves a stable electric grid to minimize disruption to service quality and reliability. In addition, we recognize the need for a financially sound electric utility...we recognize that a system of utility regulation will be needed to assure Hawaii preserves a stable electric grid and a financially sound electric utility as vital components of our renewable energy future.” Thus, the Energy Agreement recognizes that the Companies must continue to perform their utility obligations, but barriers must be removed for the Companies “to pursue aggressive demand-response, load management and customer-owned or third-party owned renewable energy systems while giving the utilities an opportunity to achieve fair rates of return (underline added).” Thus, decoupling and the revenue adjustment mechanism were not linked in the HCEI Agreement to any “more formal quid pro quo arrangement”.⁸

However, as a means of resolving this issue with the other parties in the instant proceeding, the Consumer Advocate proposed in the April 20, 2009 technical workshop, and the Companies have agreed to provide a detailed report on the status of HCEI initiatives such as New Net Energy Metering (MW and customers), the amount of New Renewable Energy purchased under the Feed-in-Tariff (“FIT”) (MW or kWh) when effective, the increase in other renewable/nonfossil-based energy generation (MW or kWh), (“HCEI Status Report”) as part of its testimony and exhibits in the next cycle of rate cases. This performance reporting will be timely and relevant in the proceedings where the Commission will determine if the decoupling mechanism and its RBA or RAM elements should be continued, modified, or terminated. The Companies have also agreed to explicitly include language in the RAM tariff provision memorializing their commitment to provide the HCEI Status Report in the next rate case cycle. See Exhibit B to *Joint Final Statement of Position*, page 1.

⁷ See Energy Agreement, page 33.

⁸ See *Blue Planet Foundation's Joinder and Supplemental Opening Statement of Position*, page 6.

CERTIFICATE OF SERVICE

I hereby certify that I have on this date served copies of the foregoing Joint Final Statement of Position of the HECO Companies and Consumer Advocate with this certificate of service by hand delivery or e-mail, as indicated below to the following:

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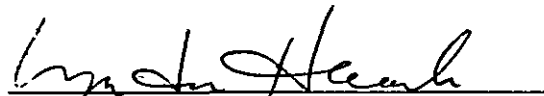
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